Beneficial Corporation

1989 Annual Report

Service

Quality

Profitability

ABOUT BENEFICIAL

Beneficial Corporation provides financial services
through its various operating subsidiaries located throughout
the United States and in Canada, the United Kingdom and West Germany.
The 1,071 offices comprising the Beneficial Finance System
meet a broad range of consumer credit needs.
In addition, consumer credit related insurance
is the major thrust of
Beneficial's insurance subsidiaries.

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Years Ended December 31 (in millions, except per share amounts)	1989	1988	1987	% Increase (Decrease) 1989 over 1988	% Increase (Decrease) 1988 over 1987
Net Income					
Income from Continuing Operations:					
Income before Special Items	**$ 120.9**	$ 112.9	$ 106.2	**7%**	6%
Special Items (a)	**–**	(7.9)	32.6	**–**	–
Total	**120.9**	105.0	138.8	**15**	(24)
Income from Discontinued Operations	**–**	–	2.0	**–**	–
Extraordinary Items:					
Use of Tax Loss Carryforwards	**–**	–	41.4	**–**	–
Early Retirement of Debt	**–**	–	(9.0)	**–**	–
Net Income	**$ 120.9**	$ 105.0	$ 173.2	**15**	(39)
Earnings per Common Share					
Continuing Operations:					
Earnings before Special Items	**$ 5.01**	$ 4.54	$ 4.08	**10**	11
Special Items (a)	**–**	(.35)	1.44	**–**	–
Total	**5.01**	4.19	5.52	**20**	(24)
Discontinued Operations	**–**	–	.09	**–**	–
Extraordinary Items:					
Use of Tax Loss Carryforwards	**–**	–	1.81	**–**	–
Early Retirement of Debt	**–**	–	(.39)	**–**	–
Earnings per Common Share	**$ 5.01**	$ 4.19	$ 7.03	**20**	(40)
Dividends per Common Share	**$ 2.20**	$ 2.00	$ 2.00	**10**	–
Shareholders' Equity (includes redeemable preferred stock in 1988 and 1987)	**$ 911.1**	$ 908.3	$ 876.1	**–**	4
Book Value per Common Share	**$ 35.58**	$ 32.87	$ 30.72	**8**	7
Finance Receivables	**$6,901.7**	$6,598.1	$6,134.8	**5**	8
Allowance for Credit Losses as a Percentage of Finance Receivables	**3.03%**	3.23%	3.43%	**(6)**	(6)

(a) Special Items, after income taxes, are comprised of "Provision for Data Processing Upgrade" in 1988 and "Interest Income from Tax Settlement" in 1987.

Nineteen eighty-nine was an excellent year for Beneficial Corporation. In fact, operating earnings per share were the highest in the Company's history. Net earnings increased 15% to $120.9 million from $105.0 million in 1988. Reflecting a reduced preferred dividend requirement this year as a result of the repurchase of the Company's 9.25% Redeemable Preferred Stock, comparable earnings per share increased even faster by 20% to $5.01 from $4.19 per share in 1988. Before a non-recurring computer-related charge of $7.9 million ($.35 per share) in 1988 results, 1989 earnings per share still increased a solid 10%. Moreover, earnings increased on a year-to-year basis in all four quarters. Beneficial has now recorded twelve straight quarters of higher core operating earnings per share on a year-to-year basis.

Beneficial's strong performance has been the product of clear focus on our core business—consumer financial services; specifically, consumer lending and related insurance products. As it has been for decades, consumer lending continues to be one of America's truly wonderful businesses—generating high returns on investment virtually year in and year out, with only modest cyclical influences—for those who manage it prudently and with a strong customer orientation. Growth potential over the next decade continues excellent, reflecting significant expansion of our key borrower base—the 25-54 year old demographic group.

A very important ingredient in generating consistently high returns in consumer lending is firm credit quality discipline. Any consumer lender can book large amounts of loans in strong economic times. The hard part is collecting, particularly during periods of economic weakness. Careful credit underwriting before the loan is made is crucial to generating a high-quality, collectible receivable base. A portfolio of carefully underwritten consumer loans based primarily on the borrowers' ability to repay and credit history, not just on the value of collateral alone, creates a portfolio that performs well and can be collected even in a slow economy.

This is an area in which Beneficial excels. Commitment to credit quality is the heart of our consumer lending culture. While loan growth is key to Beneficial's long-term performance, the essential, first question our loan office managers ask themselves both through a rigorous credit scoring system and from their own judgement gained over years of experience is, "Can I profitably collect this loan?"

Reflecting this focus on credit quality, our net chargeoff percentage in 1989 was only 1.11%, and it has averaged an exceptionally low 0.99% over the past six years. Moreover, we ended the year with excellent delinquency statistics, only slightly above the all-time lows reached at the end of 1988. Consumer finance loan balances more than two months delinquent, on a recency basis, were 0.66% at year-end, only marginally above the 0.59% level a year earlier. Similarly, total delinquency, a broader measure of recency portfolio delinquency including sales finance and partial payments, was only 1.24% compared to 1.05% at the end of 1988. In order to understand how low these figures are on a relative historical basis, one must consider that total delinquency *averaged almost two-and-one-half times higher during the ten year period 1973 through 1982, while net chargeoffs averaged 2.05% over the same period.* Our focus on credit quality has generated dramatic improvement, and has now produced a portfolio with perhaps the strongest credit quality in the entire consumer finance industry.

FINN M. W. CASPERSEN

Chairman of the Board of Directors and Chief Executive Officer

Our emphasis on real estate secured homeowner loans, now representing more than 61% of our $6.9 billion loan portfolio as compared to only 18% at the end of 1979, has been a significant factor in producing these results. Credit losses on home equity loans are particularly low, averaging only 0.35% over the last five years, including losses on foreclosure settlements. The middle-class American consumer encumbers his or her home only after a well-considered decision that the mortgage can be paid off in the ordinary course of life. Delinquency on real estate secured loans is particularly low, with total recency real estate delinquency of only 0.66% compared to 0.53% at the end of 1988.

Our market is the middle-income consumer, with an average income of approximately $30,000, in a general range of about $20,000 to $50,000. Decades of experience illustrate that this borrower is, overwhelmingly, an astute and careful manager of his or her financial affairs, because he or she cannot afford to be otherwise. Middle-income Americans are not given to the speculative excess that is prevalent with some wealthier families. They represent the greatest percentage of the population and are the backbone of the American consumer economy.

Reflecting our powerful franchise in serving this market, we anticipate continued strong credit quality in 1990 and beyond. While many competitors attempt to serve this market, few succeed over an entire business cycle. Beneficial's expertise and experience give us a significant competitive advantage.

During the year both Standard and Poor's Corporation and Moody's Investor Service upgraded our bond ratings in recognition of our outstanding balance sheet strength and liquidity, as well as our strong earnings results and credit quality focus. We have now received credit rating upgrades from each of the three major credit rating agencies over the last 19 months, with our bonds rated in the "A" range by each. We have split ratings on commercial paper: S&P rates us "A-1", Moody's "P2", and Duff & Phelps "Duff-1".

Along with utilizing significantly less financial leverage than several of our major finance industry competitors (and virtually all of our banking and thrift industry competitors), we also ended the year with a loan loss reserve percentage of more than 3%, covering 1989 net charge-offs 2.7 times, one of the most conservative ratios in the entire consumer lending industry.

Further indications of our outstanding liquidity came in the fourth quarter, when two of Beneficial's subsidiaries completed the sale of over $248 million in California home equity loan receivables through a securitization in the capital markets, establishing Beneficial's ability to access this additional funding source and reach a new base of investors. Arguably, Beneficial's balance sheet and overall financial condition have never been stronger.

The quality of Beneficial's employees is another aspect of the Company that has never been stronger. Both in the field and at headquarters, the 7,200 Beneficial employees represent a powerful mix of long experience and professionalism, all melded together by a culture emphasizing a "family" atmosphere, strong esprit-de-corps, and bottom-line profitability.

The exceptional men and women staffing our 1,071 loan offices are the heart of Beneficial. Through their dedication, experience and knowledge in providing exceptional service to generations of consumers, our powerful franchise in the consumer credit marketplace has been built. Only through their efforts are we

(left to right)

DAVID J. FARRIS

Member of the Office of the President and Chief Operating Officer

JAMES H. GILLIAM, JR.

Executive Vice President, General Counsel and Secretary

FINN M. W. CASPERSEN

Chairman of the Board of Directors and Chief Executive Officer

ANDREW C. HALVORSEN

Member of the Office of the President and Chief Financial Officer

able to generate a loan portfolio that yields more than 18%, yet generates net chargeoffs of only slightly over 1%. As proven by our results, even high-quality borrowers will pay a modest premium for the quick, caring, personalized and highly professional service our field personnel provide. I firmly believe Beneficial people are the best in the business and are crucial to our continued success.

Along with people and money, the other essential ingredient in our business is systems. State-of-the-art software and hardware systems are key to our continued future success in the decade of the nineties and beyond. We are now in the final stages of development of Bencom III, the new generation of the data processing network that links Beneficial's loan offices with headquarters and performs almost all administrative functions in the making and collecting of loans. The over $70 million total expenditure we will make for Bencom III is a key strategic investment in Beneficial's future success and will significantly expand the capacity of Beneficial's loan offices to generate new business without adding personnel. Eventually, Bencom III is expected to increase efficiency in the loan offices by more than 25%.

Full roll-out of the system is expected to be completed during 1991. While the not insignificant amortization of software and hardware costs of more than $1 million per month is also scheduled to begin in January of 1991, we expect to more than save that expenditure through increased efficiency within only a few years. Completion of the system and initial test roll-out is anticipated during 1990.

The single area diluting our earnings and representing a divergence from our basic industry focus is Harbour Island, a 177-acre island real estate development located just south of the downtown business district of Tampa, Florida. While the vital signs and long term outlook of the island and the Tampa market are still highly favorable, the Florida real estate market, like many other parts of the country, is currently depressed. Although a reduced loss from Harbour Island is anticipated in 1990, an aftertax deficit of approximately $14 million is anticipated, chiefly reflecting the interest costs of carrying our investment in the island and depreciation. Significant reductions in the loss do not appear likely until the Florida market strengthens.

The positive side of our real estate holdings is the 700 acres of land we own in Peapack, New Jersey. Although the New Jersey market is also currently slow, the value of this land is significantly greater than its modest balance sheet carrying value.

We, as the management of Beneficial and as shareholders, are disappointed with the recent performance of Beneficial shares, although we realize it is a market wide phenomena. Beneficial's fundamental outlook has never been stronger. We anticipate another excellent year in 1990, with continued earnings growth thereafter. Irrespective of stock market fluctuations, we will maintain our focus on our consumer financial services franchise, and will concentrate on producing increased earnings, dividends, and book value per share over the long term. Over time, such value creation has always been recognized by the market. We thank you for your investment in Beneficial, and remain committed to maximizing Beneficial's long-term value through continued emphasis on service, quality, and profitability.

Finn M. W. Caspersen
Chairman of the Board of Directors and
Chief Executive Officer

Beneficial People Making It Happen

Lending money is a people business, and Beneficial's greatest asset is its people. On the following pages you will meet six outstanding field executives who serve our customers. Each of these individuals represents a group executive position. A group operates as a semi-autonomous business unit, staffed by a group president, a vice president, a human resource director, a sales director, approximately ten district managers and 100 managers, and all their staffs. Additionally, these people are supported by various departments at the Company headquarters.

There are ten groups located throughout the United States, Canada, the United Kingdom, and West Germany. The group president is responsible for developing operating plans along with his administrative duties. Assisting him is a vice president, who also supervises the district managers on a day-to-day basis, traveling and working with them on operating problems in the loan offices. A district manager usually supervises ten branch managers. Also providing support are a human resource director and a sales director. The human resource director deals with recruitment, training and development, as well as compensation, while the sales director provides expert assistance in generating business. The branch managers are the "front-line" troops and the backbone of our business. They are the ones directly responsible for continuing our tradition of service to our customers.

The six individuals highlighted on the following pages have won numerous awards for excellence throughout their Beneficial careers. For example, Marilyn Spiros was president for a day in 1989–the top award for branch managers in the system. Also, Pete Gimino's department, the Southwest Group, reached a significant milestone in 1989–the billion dollar mark in outstandings. Beneficial's continued success is dependent upon executives such as these–executives who strive for excellence.

The key to our operation is service, and the key ingredient in service is liking people. I like people. I like to work with people. I like to train people, and I've always liked my customers. We go out of our way to get to know our customers personally. It takes a certain kind of person to do well in this business, but liking people is the key.

BRUCE KISTHARDT

Sales Director, Mid-Atlantic Group
Pittsburgh, Pennsylvania

The training and development of people are paramount to our success. We recruit people who relate to our culture and relate to our customers, but the customer is most important. I have to be very cognizant of that when I do recruiting at schools to make sure that I'm attracting people who will connect with our customers. Buildings have changed, the faces have changed, but the Beneficial philosophy remains the same, and that is to go out and serve our customers.

PATRICK BONEY

Director, Human Resources, Northeast Group
Danbury, Connecticut

As we developed our 1989 business plan, we realized we had the opportunity to hit the billion dollar mark. It was gratifying to see how the people from the sun belt area– Southern California, Hawaii and Arizona– jumped on the band wagon beyond my expectations. The campaign, dubbed "For Pete's Sake," was the most inspiring and gratifying event in my 32-year career with Beneficial.

PETE GIMINO

Group President, Southwest Group
Brea, California

Motivation is one of the key aspects of every position in the field. First you have to hire quality people–people who desire to be successful. I believe that all people can be motivated to do a good job. You need to convey to your staff that you are in fact interested in them as individuals, interested in them succeeding personally and in their careers...that's what really motivates a person to do excellent work.

DAN ROSEQUIST

Group Vice President, Southern Group
Tampa, Florida

The customer can't help but feel that it is something special to deal with a Beneficial office. They're not dealing with a bank. They're dealing with a service-oriented company that truly wants to help them. That's why we're in this business–to serve the customer. It starts right at the top and it funnels down to the district managers and down to the managers–down to the staff.

ALAN GRUSIE

District Manager, Canadian Group
Willowdale, Ontario

I'm a very hyper person, and I like to surround myself with hyper people. They don't let up. I'm not burned out because I enjoy what I'm doing. I enjoy meeting people. I don't want the customer to ever call the office or come to the office and think he can't come to me, even though I may be very busy. It's like an old saying, "We're like family."

MARILYN SPIROS

Loan Office Manager, North Central Group
Alliance, Ohio

(Seated, left to right):

Wayne B. Hinson
Southern Group

John France
United Kingdom Group

Peter J. Gimino, Jr.
Southwest Group

Pierre E. Bashe
Northwest Group

Forrest B. Kinney
Gulf Coast Group

Francis X. Mohan
Northeast Group

(Standing, left to right):

J. C. Heywood
North Central Group

James L. Frans
Midwest Group

Kendall D. Kelley
Mid-Atlantic Group

Rodney K. Adams
Canadian Group

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FINANCIAL REVIEW

Review of Fourth Quarter Results

Beneficial Corporation enjoyed another period of strong operating performance in the fourth quarter, as earnings of $31.6 million increased 48% from earnings of $21.4 million in the fourth quarter of 1988. Reflecting a reduced preferred dividend requirement this year, earnings per share increased faster, rising 62% to $1.36 from $0.84 in the fourth quarter of 1988.

Fourth quarter 1988 net income included a $7.9 million aftertax provision ($12.0 million pretax) related to the decision to switch to IBM Corporation from Data General Corporation as hardware supplier for the Bencom III computer network project. Absent this special charge, fourth quarter 1988 net income per share was $1.19, compared to $1.36 per share this year, a 14% increase. This represents Beneficial's twelfth consecutive quarter of increased core operating earnings per share on a year-to-year basis.

Fourth quarter operating measurements continued strong with healthy receivables growth and a modest improvement in delinquency from the already low September 30 levels. Before the quarter's major loan sale, total receivables outstanding increased $270 million compared to a gain of $264 million during the fourth quarter of 1988. Removing the benefits of foreign exchange translation in both quarters, the 1989 quarterly gain was $247 million compared to 1988's comparable gain of $230 million. Strongest growth during the quarter was in unsecured personal loans and, as was true during the first nine months of the year, in fixed-rate real estate secured loans. Total receivables ended the year at $6.9 billion.

During the fourth quarter, two Beneficial subsidiaries sold over $248 million of California home equity loan receivables through a securitization in the capital markets. A subsidiary of the Company has retained servicing rights to these receivables.

Lending spreads continued to be wide in the fourth quarter, at 9.61% compared to 9.37% in the fourth quarter of 1988. Also, the lending spread compared favorably to the 9.39% recorded in the third quarter of 1989. It's interesting to note that the lending spread expanded on a sequential basis in each of this year's quarters from the first quarter low of 8.86% to the fourth quarter high of 9.61%.

Insurance earnings also increased in the quarter, reflecting excellent growth in credit insurance premiums written in connection with Beneficial-related loans and strong growth in total investment income.

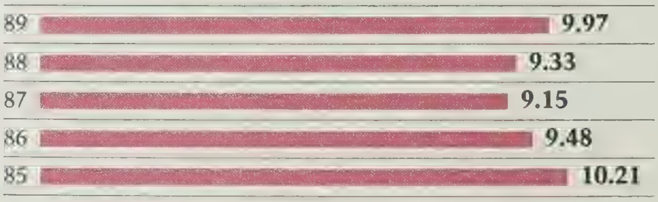
Although credit quality deteriorated slightly compared to the fourth quarter of 1988, credit quality measures remain excellent from any historical perspective. Loan balances more than two months delinquent on a recency basis were 0.66% compared to 0.72% at September 30 and 0.59% at the end of 1988. Reflecting an aggressive chargeoff policy at year-end, net chargeoffs for the quarter were $20.6 million or 0.29% of average receivables compared to $17.7 million or 0.26% of the average receivables in the fourth quarter of 1988.

While salaries and employee benefits as a percentage of average receivables increased to 3.47% from 3.28% in the fourth quarter of 1988, other operating expenses declined to 4.52% from 5.32% a year earlier. Accordingly, the overall operating expense ratio, the sum of the two aforementioned percentages, improved to 7.99% from 8.60% in the fourth quarter of 1988. Reflecting the increase in net chargeoffs, the provision for credit losses as a percentage of average receivables increased modestly to 1.40% from 1.31% in the 1988 quarter.

Pretax operating income as a percentage of average receivables improved to 3.09% from 2.90% in the fourth quarter of 1988 and 2.95% during the first nine months of 1989. Similarly, the net aftertax return on average receivables improved modestly to 1.85% from 1.81% in the fourth quarter of 1988 and 1.77% during the first nine months of 1989. All of the above percentages exclude the impact of the special DG/IBM charge in the fourth quarter of 1988.

Average Worldwide Cost of Funds

(percent)



Financing

Beneficial's financing activities began the year auspiciously with upgradings from two of the major debt rating agencies. During the first quarter, Standard & Poor's Corporation raised the rating on the Company's commercial paper to "A-1" from "A-2", senior debt to "A" from "A-", and preferred stock to "A-" from "BBB+", while Moody's Investors Service, Inc. brought the senior debt rating up two levels to "A3" from "Baa2."

Continuously offered medium-term notes (MTNs) remained the primary vehicle used by the Company to place senior-term debt. Utilization of MTNs provided approximately $658 million in domestic funds during 1989 at a weighted-average maturity of 4.1 years and a spread over the comparable Treasury security of 75 basis points. A portion of the MTNs issued were sold directly to investors by Beneficial Securities, Inc. Although the amount was not particularly significant relative to the size of the program, Beneficial will continue to focus on developing additional sales directly to investors as a complement to distribution through investment banking houses.

In the last two years Beneficial has sold over $1.2 billion of MTNs. The program has achieved the purpose of offering term debt in amounts and maturities that meet the needs of both Beneficial and investors, but on a highly cost-efficient basis for the Company.

In 1989, $556 million of term debt carrying a weighted-average coupon rate of 10.06% matured or was called for redemption prior to its stated maturity. Refinancing of these obligations, combined with other cash needs, resulted in the total worldwide issuance of $820 million in term debt through MTNs and other debt transactions, including a private placement, at a weighted-average interest rate of 9.47% and an average maturity of four years. The private placement was done with a major U. S. insurance company, and was done directly, without the aid of an investment banker. Beneficial repurchased, from the insurance company, $40 million in subordinated serial notes and $40 million of senior serial notes, both issues due annually through 1997, and then reborrowed a total of $125 million in senior notes maturing in equal amounts in 1992 and 1993. The effective borrowing cost for this transaction was lower than alternatives in the capital markets at the time.

As a consequence of these term debt activities, Beneficial's weighted-average interest rate on long-term debt outstanding at December 31, 1989 was 9.74%, declining slightly from 9.80% at December 31, 1988 and 10.06% at the end of 1987. A somewhat more significant reduction in this weighted-average cost is anticipated during 1990.

As indicated in the table below, the Funding Base of the Company continued to shift further to long-term debt during 1989, commensurate with the trend in the Company's consumer loan receivables growth toward more fixed-rate, closed-end contracts from adjustable-rate products. Beneficial generates deposits chiefly through Beneficial National Bank and Beneficial Savings Bank, and from employee thrift accounts. Also, the Company's consumer banking operations in the United Kingdom and West Germany generate modest amounts of deposits.

During 1990, total term debt of $723 million will mature, including $54 million of debentures where the holders may elect early payment and $138 million of zero coupon Eurobonds maturing in February with an imputed rate of 15%. Total 1990 maturities carry a weighted-average interest rate of 10.01%.

Funding Base

At December 31 (in millions)	1989	% of Total	1988	% of Total
Short-Term Debt				
U.S. Currency	**$1,761**	**28%**	$1,681	28%
Foreign Currencies	**224**	**3**	279	4
Total Short-Term Debt	**1,985**	**31**	1,960	32
Deposits Payable	**389**	**6**	377	6
Long-Term Debt	**4,011**	**63**	3,725	62
Funding Base	**$6,385**	**100%**	$6,062	100%

Short-term debt requirements and daily cash needs in excess of internal sources were provided for through the direct issuance of commercial paper and, to a much lesser extent, short-term bank money market loans. Total value of domestic commercial paper notes issued during 1989 by the Company exceeded $21 billion, up 7% from 1988. As was true in 1988, several significant new commercial paper customers were added, further broadening the investor base.

Although domestic short-term interest rates during most of 1989 tended to be significantly higher than rates experienced in 1988, the Company's continued financial improvement allowed for the commercial paper program to be marketed at increasingly tighter spreads than in prior years. Additionally, the cost of maintaining bank revolving credit facilities in support of the Company's liquidity requirements was cut in half at mid-year through negotiations with the banking group. Fees paid to the revolving credit banks were reduced to 0.125% from 0.25%.

Although these benefits mitigated the increase in the cost of short-term debt to the Company, the overall cost, including international subsidiary borrowings and fees on bank credit facilities, was 9.96% in 1989 compared to 8.12% in 1988. In the U.S. market only, short-term borrowing costs during the year averaged 9.56%, up from 7.98% in 1988. Increases in short-term money costs were particularly severe in international operations, especially in the United Kingdom and Canada.

Beneficial's total worldwide, melded-average borrowing cost, including fees paid on bank revolving credit facilities, was 9.97% in 1989, up from 9.33% in 1988, primarily due to the increase in short-term money-market interest rates, particularly in our international operations. Beneficial's average quarterly borrowing costs for total corporate debt during 1989 and the prior four years is presented in the table below. Quarterly worldwide borrowing costs peaked at 10.25% in the second quarter, but declined in the second half. Further declines, at least through the first half of 1990, are anticipated.

Average Worldwide Cost of Funds

	1989	1988	1987	1986	1985
1st Quarter	**10.04%**	9.07%	9.00%	10.05%	10.50%
2nd Quarter	**10.25**	9.11	9.05	9.69	10.40
3rd Quarter	**9.83**	9.42	9.25	9.18	9.99
4th Quarter	**9.75**	9.71	9.35	9.06	9.98
Full Year	**9.97%**	9.33%	9.15%	9.48%	10.21%

Opportunities in the financial markets in conjunction with the Company's focus on the most efficient capital structure, conservative and limited exposure to interest-rate risks, and long-term financial strategies led to two significant transactions that were completed during the last quarter of 1989. In late October Beneficial, through two subsidiaries, securitized over $248 million in California revolving home equity loans through a trust created as a real estate mortgage investment conduit (REMIC). Asset-backed certificates representing interests in the REMIC were underwritten in the public market by a major investment banker at a financing cost that adjusts monthly based on a commercial paper index. This transaction reduced the Company's funded debt to equity ratio, established a benchmark liquidity value on loan receivables generated through the ordinary course of the Company's business, and provided the framework for possible future entry into the asset-backed market when deemed appropriate.

During November Beneficial exercised its option to call for redemption all of the Company's 9.25% Series Redeemable Preferred stock issue. Shares that were outstanding net of prior mandatory and optional sinking fund redemptions were acquired at approximately $1,044 per share for a total cost of $43.5 million. This redemption was financed through debt capital at a significantly lower after-tax cost to the Company, and modestly increases annualized earnings per common share.

The Company frequently considers opportunities to enter into interest rate exchange agreements as a technique to manage exposure to interest rate fluctuations. Accordingly, in December a $100 million nominal value interest-rate swap was completed, whereby Beneficial assumed a fixed-rate interest obligation at an attractive cost relative to alternative fixed-rate funding opportunities. This transaction mitigated an increase in the Company's interest sensitivity which resulted from growth in fixed-rate real estate secured assets in the latter half of the year.

Beneficial maintains a very conservative position regarding exposure to foreign currency risk. International subsidiaries continue to be funded in their local currencies. In addition, the Company's net investment positions in its international operations are hedged to the largest extent practical.

Rates for the Company's commercial paper and medium-term notes, both of which are offered on a direct basis to investors, are quoted daily on the TELERATE SYSTEM.

Profitability Analysis

The table below analyzes profitability dynamics for continuing operations for the past five years, presenting major categories of income and expense as a percentage of the average principal balance of receivables. Special one-time items recorded in prior years have been segregated from individual categories to provide a consistent comparison of operating profitability.

During 1989 total receivables outstanding grew $304 million, or 5%, to reach $6.9 billion at year-end, despite the sale during the fourth quarter of over $248 million of variable-rate California home equity loan receivables through a securitization in the capital markets. Before the effects of this sale, total receivables grew a more significant $552 million (+8%) for the year.

Strongest growth for the year was in fixed-rate real estate secured loans. Including the impact of the securitization, total real estate secured loans outstanding increased $177 million to reach $4.2 billion at year-end, 61% of the entire portfolio. Personal unsecured loans increased only modestly, by $91 million, although growth in unsecured loans was strong in the fourth quarter. At year-end, total personal unsecured loans were $1.98 billion, up from $1.89 billion at the end of 1988. Similarly, sales finance contracts outstanding showed good fourth quarter growth, to end

Profitability Analysis

December 31	**1989**	1988	1987	1986	1985
Average Receivables (in millions)	**$6,737**	$6,285	$5,707	$5,167	$4,588
% of Average Receivables					
Finance Charges and Fees	**18.57%**	18.10%	18.20%	18.98%	19.83%
Interest Expense	**9.31**	8.67	8.49	8.81	9.59
Lending Spread	**9.26**	9.43	9.71	10.17	10.24
Insurance Premiums	**3.11**	2.96	1.80	1.75	3.11
Other Revenues	**1.74**	1.51	1.70	1.96	1.63
Gross Spread	**14.11**	13.90	13.21	13.88	14.98
Salaries & Employee Benefits	**3.41**	3.40	3.64	3.75	3.91
Insurance Benefits	**2.23**	2.00	.91	1.02	2.14
Provision for Credit Losses	**1.21**	1.15	1.22	1.25	1.17
Other Operating Expenses	**4.27**	4.49	4.78	5.16	5.20
Total Operating Expenses	**11.12**	11.04	10.55	11.18	12.42
Operating Income before Special Items	**2.99**	2.86	2.66	2.70	2.56
Special Items (a)	–	(.19)	.95	(.20)	–
Operating Income	**2.99**	2.67	3.61	2.50	2.56
Provision for Taxes	**1.20**	1.00	1.18	1.06	1.06
Income from Continuing Operations	**1.79**	1.67	2.43	1.44	1.50

(a) Special items are comprised of "Provision for Data Processing Upgrade" in 1988, "Interest Income from Tax Settlement" in 1987, and "Provision for Restructuring" in 1986.

the year at $525 million, up from $509 million at the end of 1988. Commercial bank loans, representing the loan portfolio of our Beneficial National Bank subsidiary, increased $20 million to $165 million at December 31. In total, average receivables for the year increased 7% to $6,737 million from $6,285 million in 1988.

The gross yield on Beneficial's portfolio remained quite strong in 1989, increasing to 18.57% from 18.10% in 1988. However, reflecting higher U. S. commercial paper borrowing costs and sharply higher funding costs in the United Kingdom and Canada, interest expense as a percentage of average receivables increased to 9.31% from 8.67% in 1988. Accordingly, the lending spread declined modestly to 9.26% from 9.43% in 1988, although it should be noted that the lending spread increased sequentially in each of the four quarters of the year, from the first quarter's low of 8.86% to the fourth quarter's high of 9.61%.

Insurance premium revenue was strong in 1989 as credit insurance premiums written through the Beneficial loan office network increased a healthy 8%. As in many prior years, premium revenue is distorted by one-time inflows and outflows from life and accident and health reinsurance contracts, with insurance benefits and commission expense distorted by essentially offsetting amounts. Accordingly, these reinsurance transactions have very little impact on pretax earnings. However, reflecting the good premium growth, slightly reduced loss ratios, and excellent growth in total investment income, total pretax income from insurance operations increased an excellent 33% to $62.3 million from $46.8 million in 1988. This represented 0.92% of average receivables in 1989 compared to 0.74% of average receivables in 1988.

Other revenues were relatively strong in 1989, increasing to 1.74% of average receivables from 1.51% in 1988, reflecting strong growth in revenues of the Refund Anticipation Loan program with H&R Block and the excellent growth in insurance investment income.

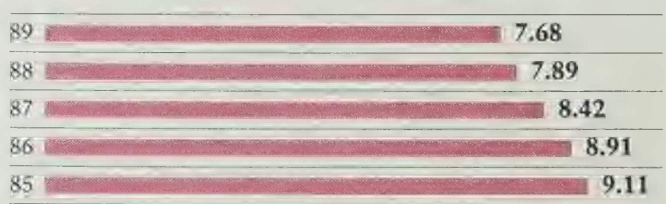
The overall expense ratio improved again in 1989. Although salaries and employee benefits as a percentage of average receivables were essentially flat at 3.41% compared to 3.40%, other operating expenses declined to 4.27% of average receivables from 4.49% in 1988. Accordingly, the overall operating expense ratio (the sum of the two aforementioned percentages) declined to 7.68% from 7.89% in 1988. Noteworthy is the relatively steady and significant improvement in this ratio in recent years. In 1985 the operating expense ratio totaled 9.11%.

Reflecting the slight increase in net chargeoffs and delinquency during the year, the provision for credit losses as a percentage of average receivables increased to 1.21% from 1.15% in 1988, yet remains at a relatively low level by any historical measure.

Pretax operating income as a percentage of average receivables increased to 2.99% from 2.86% in 1988. Unlike the three prior years, there were no special items in 1989 results. The effective tax rate was higher in 1989 at 40.0% compared to 37.5% in 1988, with the increase chiefly due to higher net U.S. taxes on foreign earnings. Net of the higher tax rate and removing the aftertax impact of the DG/IBM special item in 1988, the net aftertax return on average receivables declined just slightly to 1.79% from 1.80% in 1988.

Removing the $16.3 million aftertax loss of Harbour Island, and examining profitability of Beneficial's core consumer financial services businesses taken alone, produces a net aftertax return on average receivables of 2.04% compared to 2.03% on a comparable basis in 1988.

Operating Expense Ratio
(includes Salaries and Benefits and Other only)
(percent)



Consumer Finance Office Network

The loan office network totaled 1,071 offices in four countries at year-end. In the United States, Beneficial operates 903 offices in 39 states, compared to 901 offices in 39 states at the end of 1988. The number of domestic offices has been relatively static in recent years, as Beneficial is now located in most of the key areas offering both attractive growth potential and a hospitable regulatory climate. International operations at year-end consisted of a total of 168 offices: 106 in Canada, 54 in the United Kingdom, and 8 in West Germany. At the end of 1988 international operations consisted of 172 offices.

Examining geographical concentrations, California remains a particularly important state with 27% of total worldwide receivables, while significant concentrations of outstandings also exist in the states of New York (7%), Pennsylvania (6%), Ohio (6%), New Jersey (3%) and Florida (3%). Canada is the most significant operation outside of the United States with 8% of worldwide receivables.

As has been true for many years, operating efficiencies at the loan office level continued to improve in 1989. At year-end the key measure of cash invested (principal of finance receivables) per employee rose to $1.23 million from $1.20 million at the end of 1988. Similarly, cash invested per office increased to $6.3 million from $5.8 million at year-end 1988.

The total number of customer accounts increased almost 49,000 during 1989, bringing total accounts to 1,914,000 from 1,865,000 at the end of 1988. This is an important operating statistic in the finance industry since, traditionally, consumers will borrow from Beneficial multiple times over their life cycles. Along with sales finance activities, a highly sophisticated direct mail marketing effort has proven to be a particularly successful means of gaining new customers.

Real Estate Secured Loans

Real estate secured loans continue to be Beneficial's most important product and largest category of loans outstanding. With tax deductibility for consumer interest paid on home equity loans now protected up to a $100,000 loan size, it seems likely that home equity loans will continue to be the key manner in which consumers access credit when they have a significant financial need. Moreover, despite the significant growth in nationwide second mortgages outstanding in recent years, the overall untapped market remains huge. Estimates of unleveraged housing equity in the United States exceed $3 trillion. Also, despite the fact that Beneficial ranks among the nation's very largest second mortgage lenders, the total number of its customers is only 173,000.

Although yields on real estate secured loans are significantly lower than on Beneficial's unsecured personal loans, net chargeoffs are a fraction of unsecured chargeoffs, and operating costs per dollar loaned are significantly less than on unsecured lending. Accordingly, real estate secured loans are fully as profitable as unsecured lending.

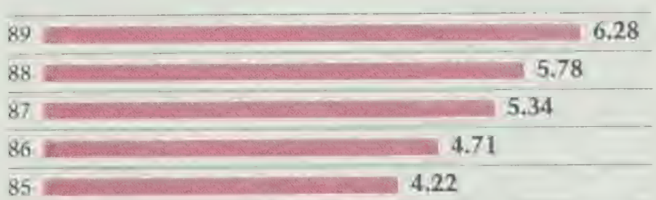
Real estate secured loans (chiefly second mortgages) increased 4% in 1989 to reach $4.2 billion at year-end and represent 61% of Beneficial's total receivables portfolio, unchanged from the end of 1988. During the year, best growth occurred in fixed-rate real estate secured loans, as opposed to the variable-rate credit line accounts which actually declined $479 million during the year, largely reflecting the impact of the fourth quarter's securitization.

Cash Invested per Employee

(in millions)

Cash Invested per Office

(in millions)



At year-end, Beneficial's total fixed-rate real estate secured portfolio was $3.3 billion. Loans written during 1989 were at an average yield of 16.18%. The variable-rate real estate secured revolving line of credit accounts totaled $936 million at year-end. The average yield on this variable-rate portfolio was approximately prime plus 500 basis points.

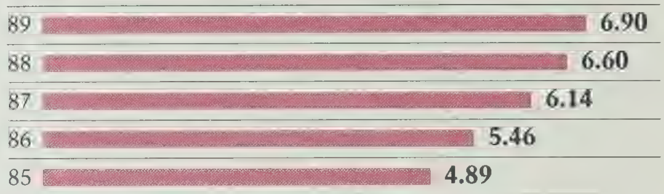
Along with the excellent yield, another interesting characteristic of Beneficial's real estate secured revolving credit lines is that a very high percentage of the line is drawn down, currently more than 90% on average.

Beneficial's real estate secured loans are subject to carefully monitored underwriting of both the borrower's ability to repay and the independent, professionally appraised market value of the property. The loans are well-documented consumer loans based solely on the credit worthiness of the borrower, with the collateral of the real estate providing additional security. Nevertheless, for second mortgage loans Beneficial will generally lend to a cap of only 75% (including the existing first mortgage) of the appraised value of the home as determined by certified, independent appraisers. In addition, a rigorous discipline of credit approval is enforced as to borrower debt-to-income ratios and overall customer quality. A customized and regionalized credit scoring system is used as a key tool in evaluating consumer credit worthiness.

Most real estate secured loans must be approved by regional management as well as by the originating loan office manager. The largest loans must also be approved by a senior vice president at headquarters. Appraisers are evaluated and policed by regional supervisory management, not by the loan office manager. Finally, if a loan becomes delinquent, Beneficial moves quickly to protect its position by initiating foreclosure proceedings. In most instances, such action results in the loan being brought current.

Principal of Finance Receivables

(in billions)



Reflecting these procedures, real estate loan net chargeoffs are extremely low. In 1989, including losses on disposition of foreclosed property, real estate loan losses averaged only 0.27% of average outstandings, compared to 0.25% in 1988 and 0.21% in 1987. While delinquency ratios on real estate secured loans are up modestly, they remain at relatively low levels by historical measures. On a recency basis, total real estate loan delinquency (including all loans two or more months overdue and all partial payment accounts) were 0.66% at year-end, compared to 0.53% at the end of 1988 and 0.55% at the end of 1987. To put this number into historical perspective, as recently as December of 1982 it was 1.56%—almost two and one-half times greater. Foreclosed real estate owned at year-end totaled $16 million or 0.39% of real estate loans outstanding. This percentage was 0.30% and 0.29%, respectively, at the end of 1988 and 1987.

Although Beneficial will make real estate secured loans of up to $100,000 or more, the average real estate secured loan made in 1989 was $27,704, up from $24,124 in 1988. Reflecting Beneficial's careful underwriting, the average-size loan has increased at only a moderate rate over the last six years despite the significant inflation in real estate prices in most areas of the country over this period. In 1984 the average-size real estate loan was $17,710.

Principal of Finance Receivables

at December 31 (in millions)	**1989**	1988	1987	1986	1985
Real Estate Secured Loans	**$4,233**	$4,056	$3,756	$3,357	$3,026
Personal Unsecured Loans	**1,979**	1,888	1,805	1,560	1,380
Sales Finance Contracts	**525**	509	456	442	417
Commercial Bank Loans	**165**	145	118	102	71
Total	**$6,902**	$6,598	$6,135	$5,461	$4,894

Unsecured Personal Loans

The unsecured personal loan business remains an attractive, relatively large "niche" market that is poorly served by most other non-finance industry competitors. During 1989 unsecured personal loans outstanding, including both the traditional closed-end, fixed-rate loans and the revolving credit line accounts, increased $91 million to almost $2.0 billion at year-end and now represent 29% of total receivables outstanding. Growth in unsecured personal loans was particularly strong during the fourth quarter. The average-size personal loan made increased modestly to $2,234 from $2,190 in 1988.

Although operating costs per dollar loaned and net chargeoffs are higher for unsecured personal loan lending than for real estate secured lending, the significantly higher yields realized in personal loan lending continue to make it a highly profitable product line. In 1989 the average yield on unsecured personal loans written was an excellent 25.57%, and the average yield on the entire portfolio at year-end was 23.38%.

Bencharge—Sales Finance Activities

Sales finance activities continue to be a particularly important source of new loan customers for Beneficial. In 1989, as has been true in the last several years, approximately 50% of new loan borrowers originated as sales finance customers.

Sales finance programs are marketed to retailers by Bencharge Credit Service. Bencharge provides three programs: 1) A private label revolving charge program which provides the retailer's customers with an open-end line of credit to use in the store; 2) A closed-end program under which a retailer offers a fixed-term contract to a customer for a single "high-ticket" purchase; and 3) A receivables acquisition program whereby a merchant can sell an entire portfolio of sales finance accounts to Bencharge.

Marketing activities target local merchants through the loan office system and high-ticket national and regional retailers in the appliance, electronic, furniture and home improvement center industries through a national sales force.

During 1989 Bencharge purchased over 740,000 sales finance contracts, up 9% from 1988. Total volume increased to $585 million from $560 million a year earlier, and year-end outstandings rose 3% to $525 million. Of particular importance, the number of sales finance customers increased 6% to 735,000.

Continued data processing improvements were made in 1989. All of Bencharge's regional sales centers were equipped with Beneficial's SNAP (System for New Accounts Processing) computer system to automate processing. Streamlined merchant settlement procedures were developed for several of Bencharge's largest retailers. During 1990 Beneficial will offer centralized portfolio management for the large regional/national merchant segment of the sales finance business.

Commercial Bank Loans

Commercial bank loans represent the loan portfolio of Beneficial National Bank (BNB), Beneficial's commercial bank subsidiary. The bank's loan portfolio increased to $165 million at December 31, 1989 from $145 million at the end of 1988. As indicated in the table on the previous page, BNB has experienced strong loan growth over the last five years. Nevertheless, credit quality measures continue to be excellent. At year-end the breakdown of the portfolio was 75% industrial and commercial loans and 25% consumer loans. Commercial loans are chiefly real estate secured commercial mortgage loans.

International Operations

Receivables growth in Beneficial's international operations slowed in 1989. As denominated in dollars, finance receivables outside the United States increased just marginally, by $1 million in 1989, compared to an increase of $68 million in 1988. However, during the third quarter, Beneficial's United Kingdom subsidiary sold a $21 million credit card portfolio. Adjusted for this sale, international receivables growth was somewhat more significant.

International Finance Receivables

at December 31 (in millions)	**1989**	1988	1987	1986	1985
Canada	**$545**	$517	$424	$324	$270
United Kingdom	**250**	281	248	190	170
West Germany	**161**	157	215	102	75
Total	**$956**	$955	$887	$616	$515

It is important to note that foreign exchange translation in the environment of volatile exchange rates of the U.S. dollar versus the indigenous currencies of our international operations can have a significant distorting impact on foreign receivables totals. For the year 1989, the overall impact was not significant, as the strengthening of the Canadian dollar and the Deutsche mark versus the U. S. currency was offset by the dramatic weakening of the British pound. Overall, a modest translation loss of $9 million was recorded in 1989, compared to a $3 million gain in 1988. However, in both years, quarterly translation adjustments were erratic. Removing this distortive factor from both years, international operations effectively showed a $10 million receivables gain in 1989, while 1988 recorded a gain of $65 million.

Canada continues to represent Beneficial's largest operation outside of the United States, with $545 million in receivables at year-end, up from $517 million at the end of 1988. As denominated in Canadian dollars, Canadian receivables rose C$15 million, or 2%, for the year.

The Canadian operation consists of 106 offices located throughout the country, although the provinces of Ontario and Quebec represent over 75% of total Canadian outstandings. Canadian operations are quite similar to operations in the U. S., with marketing efforts focusing on high-quality real estate secured loans, which now represent 61% of Canada's outstandings. Despite the slowing of receivables growth in the difficult operating environment of a steeply inverted yield curve, Canadian operating earnings increased again in 1989 as they have in each of the last five years. Over this period Canada has generated a dramatic improvement in net income.

In the United Kingdom, Beneficial operates through Beneficial Bank PLC, a retail banking operation offering consumer loan, sales finance, bank credit card, and deposit services. The bank operates 54 offices throughout the U.K., with operations concentrated, however, in the Greater London, Midlands and Southeast regions. As denominated in pounds sterling, the bank's receivables increased £13 million before the credit card portfolio sale. Reflecting the portfolio sale and a substantial $31 million foreign exchange translation loss, reported U.K. receivables totals declined to $250 million from $281 million at the end of 1988. Although earnings increased modestly for the year, profits have been relatively flat over the last several years, recently reflecting a squeeze in lending margins.

BFK Bank AG is Beneficial's West German subsidiary. Deutsche mark receivables declined modestly during 1989. However, including a $7 million foreign exchange translation gain, reported receivables of $161 million were higher than receivables of $157 million at year-end 1988. BFK Bank now has 8 offices in 8 cities. Earnings increased in 1989.

As indicated in the table on the previous page, total international finance receivables, as denominated in U. S. dollars, were essentially flat at $956 million compared to $955 million at the end of 1988. International receivables now represent roughly 14% of the Corporate total.

In order to substantially eliminate income statement foreign exchange exposure for Beneficial Corporation, international operations are generally funded in local currencies through domestic financial markets. Canadian operations sell commercial paper and medium-term notes through dealers in the Canadian financial markets. United Kingdom and West German banking operations do generate deposits, but chiefly fund themselves through bank borrowings and long-term debt placements.

Credit Quality—Condition of the Portfolio

Beneficial Corporation enjoyed another year of excellent credit quality in 1989. Although credit quality measures deteriorated slightly from the exceptional results of recent years, they remain at quite low levels from any longer historical perspective.

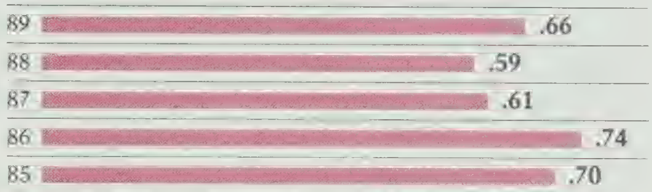
As a percentage of average receivables, net charge-offs increased slightly to 1.11%, or $78.0 million, from 1.05%, or $68.6 million, in 1988. Nevertheless, the ratio remains well below that experienced in the early 1980s and during most years in the 1970s.

Recent years' net chargeoffs peaked in 1982 at 2.40% of average outstandings. The particularly low net chargeoff ratios in 1984 and 1985 were reduced by large recoveries of previously charged off loans in those years, reflecting the heavy chargeoffs in the 1980-1982 period. Gross chargeoffs (before recoveries) as a percentage of receivables were only modestly higher in 1989 and 1988 at 1.33% and 1.28%, respectively, than they were in 1985 and 1984 at 1.17% and 1.23%, respectively.

Loan delinquency also increased modestly in 1989, yet remains at low relative levels. Consumer loan receivables (consisting of real estate secured and unsecured loans) more than two months delinquent, on a recency basis, increased to 0.66%, compared to 0.59% at the end of 1988. However, delinquency declined slightly during the fourth quarter from the third quarter level. Comparable delinquency at September 30, 1989 was 0.72%. Total recency loan delinquency, a broader measure reflecting all loan and sales finance accounts two or more months overdue, including partial payments, increased to 1.24% at year-end from 1.05% at the end of 1988 but decreased from 1.26% at September 30, 1989. At the end of 1980 and 1981 this figure was 2.78% and 2.56%, respectively—more than two times greater.

Consumer Loan Delinquency

(percent)



At year-end, the allowance for credit losses as a percentage of receivables was 3.03%. Continuing the pattern of recent quarters, the reserve was reduced five basis points a quarter during the current year from the 3.23% level at the end of 1988. However, at 3.03%, the reserve covers 1989 net chargeoffs 2.7 times, a particularly conservative ratio by industry standards. Many of our competitors maintain credit loss reserves only 1 to 1.5 times their recent year chargeoff level.

During 1990, Beneficial Corporation will switch to the contractual method of delinquency calculation for measuring the operating performance of the loan offices. Although recency remains a valid measure of delinquency for consumer finance companies, the switch to contractual delinquency brings Beneficial more closely into line with the practice of the rest of the broader consumer lending industry.

Credit Quality Measures

(in millions)		Finance Receivables Charged Off (a)		Allowance for Credit Losses at End of Year		Delinquency
Year	Gross Amount of Receivables Charged Off	Net Chargeoffs	% of Average Gross Finance Receivables	Amount	% of Finance Receivables at End of Year	Consumer Loan Receivables More Than Two Months Delinquent (b)
1989	**$92.9**	**$78.0**	**1.11%**	**$208.8**	**3.03%**	**0.66%**
1988	84.1	68.6	1.05	212.8	3.23	0.59
1987	80.1	64.9	1.08	210.6	3.43	0.61
1986	73.2	58.6	1.07	195.6	3.58	0.74
1985	57.3	38.3	0.77	190.3	3.89	0.70
1984	58.4	40.0	0.84	173.7	3.94	0.75

(a) Less offsetting recoveries.
(b) On a recency basis. Includes real estate secured loans and personal unsecured loans. Excludes receivables of BFK Bank AG and Beneficial National Bank.

Beneficial Mortgage Corporation

Beneficial Mortgage Corporation (BMC), is Beneficial's mortgage banking subsidiary. Headquartered in Newark, Delaware, BMC originates, markets and services investment quality residential first mortgage loans. Offering market rate first mortgage loans through the Beneficial loan office network provides the Corporation with opportunities to develop long-term relationships with new, high-quality customers and to cross-sell existing second mortgage and sales finance customers.

Loans are solicited by Beneficial loan offices nationwide and processed at four BMC regional processing centers, which are located in Winter Park, Florida, Overland Park, Kansas, San Jose, California and at BMC headquarters in Delaware. BMC also operates a correspondent loan origination network (centered in the Middle-Atlantic and Northeastern States) in which small banks, thrifts and mortgage companies under contract solicit mortgages for BMC. To insure investment quality, all loans are underwritten at the Newark, Delaware headquarters prior to packaging and sale into the secondary market. Most loans are sold in securitized form, with FNMA or FHLMC guarantees, with BMC retaining the rights to service the loans and earn continuing servicing fees.

BMC originated $238 million in first mortgages in 1989, substantially ahead of 1988's volume of $110 million. This improvement resulted from greater emphasis on the first mortgage program in the loan office network, from generally lower prevailing market rates, more rational primary market pricing throughout the mortgage industry, and greater volume from correspondent institutions. The size of BMC's servicing portfolio rose to over $1.04 billion at December 31 on the strength of increased originations, up 18% from 1988's year-end balance of $884 million.

Reflecting strong growth in net servicing revenue and close control of originating and marketing expenses, BMC significantly reduced its pretax loss in 1989 to $2.0 million from a pretax loss of $5.6 million in 1988. The 1989 performance was a significant improvement over budgeted results. While another modest operating loss has been budgeted for 1990, the Company remains optimistic about BMC's future potential.

Beneficial Savings Bank

Beneficial Savings Bank (BSB), Beneficial's consumer bank subsidiary, is a Florida-based, FDIC-insured, federally-chartered savings bank with 11 branches centered in the corridor between Tampa and Orlando. Still a relatively small institution, BSB ended the year with total assets of $110 million, up from $102 million at the end of 1988. BSB was marginally profitable in 1989.

BSB affords Beneficial the opportunity to test the concept of a "consumer bank" as a means of delivering financial services to consumers, as opposed to our traditional loan office distribution channel. While results have been disappointing to date, it remains a potentially valuable strategic distribution channel and an efficient testing laboratory to determine if the products offered by a bank, combined with the sales culture of our consumer finance network, can more effectively meet our customers' needs. Also, the institution and its branch system are valuable assets in their own right as they are located in an attractive, rapidly-growing area of Florida.

Beneficial National Bank

Beneficial National Bank (BNB), based in Wilmington, Delaware, is Beneficial Corporation's commercial banking subsidiary. The Bank, which operates seven full-service branches in Delaware, provides a full range of commercial and consumer banking services to small- and medium-sized businesses and to consumers in Delaware and surrounding markets. In addition, it provides significant corporate cash management and treasury services to Beneficial Corporation and its operating subsidiaries.

BNB reported another excellent year in 1989 as net income increased 11% to $3.7 million from $3.3 million in 1988. Average assets increased to $225 million from $191 million in 1988. Return on average assets was 1.65% while the return on average equity was 16.31%. The Bank's regulatory capital to assets ratio was a very strong 11.6% at year-end 1989.

Earnings improvement resulted primarily from a 25% increase in tax equivalent net interest income and an increase in processing fee revenue from the Tax Refund Anticipation Loan program. BNB's overall progress in recent years has been exceptional. BNB's net earnings of $3.7 million in 1989 have now increased almost eleven-fold over 1983 profits of $339,000.

At December 31, 1989, total loans outstanding, excluding participations sold to other institutions, were $165 million, up 14% from the prior year. Approximately 75% of total loans are loans to small- and medium-sized businesses in the local Delaware market. However, half of the 1989 increase in total loans is attributable to gains in first mortgage and other consumer loans.

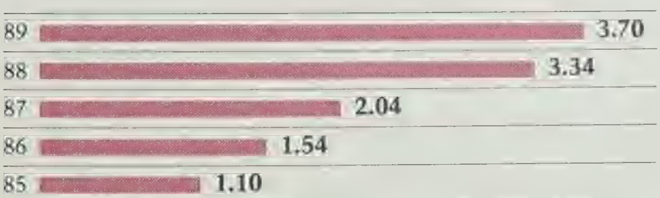
The reserve for loan losses was 1.37% of loans at year-end, with net chargeoffs only 0.20% of average loans outstanding during the year. Over the last five years, annual net chargeoffs have averaged only 0.19% of total loans. Credit quality of the loan portfolio continues to be excellent.

Beneficial's ownership of this full-service commercial bank enables the Corporation to enjoy significant cash management efficiencies. All disbursements through the consumer finance loan office network, as well as all checks written by customers on revolving credit lines sold through the loan office network, are drawn on BNB. Consumer Finance System office deposits are made at regional banks and are electronically transferred and concentrated at BNB on a daily basis. Additionally, a full range of banking services, including deposit accounts, wire transfer, and check processing, are provided to Beneficial and its subsidiaries.

Beneficial National Bank originates and services the Tax Refund Anticipation Loans issued through H&R Block offices. These loans are sold to a subsidiary of Beneficial Corporation after origination. The Bank receives payment for these loans through electronic funds transfer of customers' refunds from the Internal Revenue Service and then remits payments to the Beneficial subsidiary.

Beneficial National Bank Net Income

(in millions)



Throughout 1990, the Bank will continue to increase the retail banking base while profitably growing commercial business relationships. The Bank's expanding consumer focus should improve an already outstanding performance record. Continued dedication to managing credit quality and achievement of greater cost efficiencies should continue to produce strong financial performance for BNB in the future.

Refund Anticipation Loan Program

Over the past three years, Beneficial has conducted a cooperative program with H&R Block and certain of its franchisees, the dominant providers of tax preparation services nationally for consumers. Through Beneficial National Bank, "Refund Anticipation Loans" are made to consumers entitled to a tax refund who file their returns with the Internal Revenue Service through Block's electronic filing system. After the return is processed, refund proceeds are directly transmitted from the IRS via electronic funds transfer to a unique consumer account at BNB with the proceeds applied to repay the outstanding loan.

Beneficial receives a flat fee for extending the loan. In 1989 the fee was $38.50. The average loan amount was just over $1,200. With refund proceeds generally received from the IRS within a three week period, the profitability of this program is excellent. Beneficial made almost 600,000 RALs during the 1989 tax season, up from 450,000 in 1988.

Insurance Group

1989 was a year of continued operating progress and significant earnings growth for Beneficial's insurance group. Led by Central National Life Insurance Company (CNL), its flagship credit insurance subsidiary, the insurance group's pretax income increased 33% to $62.3 million from $46.8 million in 1988, while net aftertax earnings increased to $44.6 million from $33.7 million in 1988. Also contributing to the very favorable comparison were strong profit gains in agency operations, which reported more than a doubling of net income from 1988 to 1989.

During 1989 the A. M. Best Company upgraded their rating of CNL to "A+", their highest rating. This improvement reflects CNL's strong capitalization,

excellent profitability and conservatively postured investment portfolio. The rating upgrade is a tangible endorsement of CNL's progress since Beneficial's restructuring in 1986 and is of significant value in marketing CNL's non-credit insurance products, particularly annuities. In 1989 CNL reported its third consecutive year of record earnings, producing net income of $34.2 million, up 28% from $26.7 million in 1988.

Credit Related Products

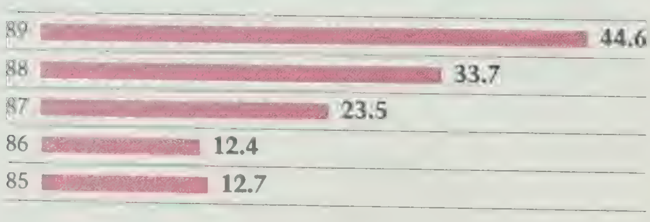
Central National Life and its New York domiciled subsidiary, American Western National Life, rank among the industry leaders in the highly specialized consumer credit marketplace, offering both life and disability coverages. These products are marketed primarily through the domestic Beneficial loan office network. Reflecting the marketing economies inherent in selling through in-house distribution channels, Beneficial-related business accounted for nearly 70% of total insurance earnings for the year.

Credit insurance premiums written through outside, or independent accounts, were slightly lower in 1989, as CNL continued to focus on attracting and maintaining the more profitable accounts. Marketing efforts continue to be largely centered on the consumer loan operations of commercial banks, thrift institutions, finance companies and automobile dealerships in the Northeast. While less profitable than the Beneficial-related business (as a result of commissions paid to the producers), the independent distribution system does contribute to corporate profits and reported earnings improvement for the third consecutive year.

Total credit premiums written increased to $79.5 million in 1989 from $76.5 million in 1988. This increase is solely reflective of gains in premiums written through the Beneficial loan office network, where premiums written rose 8% to $67.5 million in 1989 from $62.3 million in 1988. Slightly offsetting this gain was a decline in premiums written through the independent marketplace, reflecting the impact of the refocusing of marketing activities and, to a lesser extent, a general downturn in credit insurance demand as a result of decreased automobile sales. Premiums written through outside accounts fell to $12.0 million in 1989 from $14.2 million in 1988.

Insurance Operations Net Income

(in millions)



Annuity Products

1989 marked the successful entry of CNL into the annuity marketplace, as the Company began writing single premium deferred annuities through its relationships with major regional banks in the Middle-Atlantic area. CNL's developing position in the annuity marketplace is strengthened by its excellent financial position (statutory surplus of $170.5 million at year-end 1989 and "A+" rating from Best's) and prudent investment management. Although annuity sales in 1989 were only $11.5 million, significant growth is expected in 1990 as the Company expands its distribution system with national marketing companies and selected general agents. 1990 results are expected to be further enhanced by the introduction of several new product offerings, including a single premium immediate annuity and flexible annuity.

Agency Operations

Insurance agency relationships are maintained with several outside insurance companies which offer credit property and selected non-credit related products. These products are marketed chiefly through the domestic Beneficial loan office network. Since the loan office network acts as the retailer of the product rather than the underwriter, agency operations retain a substantial commission, while the insurance risk of loss rests with the insurance carrier. Ways of expanding the agency concept are continually being explored as a method of generating substantial insurance earnings without incurring underwriting risk or significant incremental operating costs. For 1989, as a result of increased commission income, agency operations reported net income of $8.0 million, substantially improved from $3.8 million in 1988.

Investment Activities

Driven by strong cash flow from operations, investment income growth continued strong in 1989. Total pretax investment income increased 16% to $31.4 million from $27.0 million in 1988. The investment portfolio continues to be conservatively structured, consisting

almost entirely of fixed-income obligations, predominantly "A" rated or better. During the year, to maximize net aftertax investment income, CNL shifted its investment focus to taxable obligations from its prior emphasis on tax-free municipal bonds. As part of the process, a total of $46 million of municipal bonds was sold during the year, generating net pretax capital gains of $1.3 million. In 1988 pretax capital gains were $1.2 million.

The outlook for Beneficial's insurance group remains excellent. Current and proposed product lines and distribution systems present attractive opportunities for the expansion of total life writings. CNL's solid overall expertise in the insurance marketplace, responsive administrative staff devoted to fully servicing customer needs, and sound financial condition should enable it to continue the successful expansion of its business in both the Beneficial-related and independent marketplaces.

Harbour Island

Harbour Island is a 177-acre island development located off the southerly waterfront of downtown Tampa, Florida. The Development of Regional Impact (DRI) plan for full development of the island is approved, and provides for commercial, hotel, residential and retail space. An approved DRI takes on added significance since a growth management law was implemented in Florida during 1989. This law effectively prohibits further commercial or residential development until money is available to provide adequate public services to those developments. Projects with an approved DRI are not impacted by the new law.

To date, an office building, a retail market, a hotel, condominiums, and an athletic club have been finished. At year-end 1989, 87% of the retail market space was under lease. Condominium units sold totaled 169 out of 200 available, with an additional 8 under contract. In 1988 a long-term direct financing lease was negotiated for the hotel, under the terms of which the lessor assumed full operational responsibility for that entity. In June of 1989 the office building was sold at a price that approximated cost and allowed for a $21.6 million cash repayment to Beneficial.

The next stage of residential development will begin in 1990. A project for the construction of detached, single-family homes will start in the spring. Also in the design phase is a townhouse product and a 272-unit garden apartment complex. The market is currently being evaluated to determine the appropriate timing for the construction of a second office building.

At year-end the investment in and advances to Harbour Island totaled $113 million, down from $136 million at the end of 1988. The decrease was primarily a result of the previously mentioned sale of the office building. For the year, Harbour Island incurred total pretax operating losses of $24.7 million, up from the $22.6 million loss in the previous year. Most of this charge represents interest costs, since Beneficial assigns no equity to this project but funds it all with debt at the Company's overall melded cost of funds. Depreciation represents $2.0 million of the pretax loss. The increase in the loss from 1988 represents one-time clean-up costs expensed at year-end.

The Harbour Island development must be viewed as a long-term investment. While the Tampa real estate market, like most of Florida, is currently relatively slow, the Tampa area continues to be a community with exceptional long-term prospects for continued strong growth. A major, 263,000 sq. ft. Convention Center is currently being constructed directly across the bridge from Harbour Island. Completion of the Tampa Convention Center is anticipated for Fall 1990. Unfortunately, until significant parcels of the remaining 127+ acres of raw land are sold, accounting losses are not likely to decline significantly.

Other Real Estate

Subsidiaries of Beneficial also own nearly 700 acres of real estate adjacent to the Peapack, NJ office complex. Although the New Jersey market is also currently slow, this land would appear to be a highly valuable corporate asset. The appraised value of the land is substantially in excess of the modest carrying value on the balance sheet. Management is currently pursuing required zoning approvals to maximize the sales value of the land.

BALANCE SHEET

(in millions) December 31	1989	1988
Assets		
Cash and Equivalents	**$ 78.0**	$ 88.9
Finance Receivables (Note 8)	**6,901.7**	6,598.1
Allowance for Credit Losses (Note 8)	**(208.8)**	(212.8)
Net Finance Receivables	**6,692.9**	6,385.3
Investments (Note 7)	**389.1**	362.4
Property and Equipment (at cost, less accumulated depreciation of $78.8 and $68.0)	**225.5**	236.7
Other Assets (Note 9)	**562.0**	489.3
Total	**$7,947.5**	$7,562.6
Liabilities and Shareholders' Equity		
Short-Term Debt (Note 10)	**$1,985.0**	$1,959.8
Deposits Payable (includes employee thrift deposits)	**389.4**	377.1
Long-Term Debt (Note 11)	**4,010.8**	3,725.3
Total Interest-Bearing Debt	**6,385.2**	6,062.2
Accounts Payable and Accrued Liabilities (Note 16)	**455.0**	416.0
Insurance Policy and Claim Reserves	**196.2**	176.1
Total Liabilities	**7,036.4**	6,654.3
Redeemable Preferred Stock (Notes 5 and 12)	**–**	58.3
Other Preferred Stock (Note 12)	**115.1**	115.2
Common Stock (60.0 shares authorized; 22.4 shares issued and outstanding) (Note 12)	**22.4**	22.4
Additional Capital (Note 12)	**60.1**	59.5
Net Unrealized Loss on Equity Securities (Note 7)	**(1.8)**	(3.2)
Accumulated Foreign Currency Translation Adjustments	**(11.1)**	(9.6)
Retained Earnings	**726.4**	665.7
Total	**$7,947.5**	$7,562.6

See Notes to Financial Statements.

STATEMENT OF INCOME AND RETAINED EARNINGS

(Unaudited) Three Months Ended December 31			Years Ended December 31		
1989	1988	(in millions, except per share amounts)	**1989**	1988	1987
		Net Finance Revenue			
$317.8	$296.5	Finance Charges and Fees	**$1,250.9**	$1,137.3	$1,038.8
154.0	145.2	Interest Expense	**627.5**	544.7	484.5
163.8	151.3	Lending Spread	**623.4**	592.6	554.3
		Other Revenue			
69.2	104.4	Insurance Premiums	**209.8**	186.2	102.9
–	–	Interest Income from Tax Settlement (Note 3)	**–**	–	54.4
30.9	28.3	Other	**117.6**	94.5	96.9
263.9	284.0	Total	**950.8**	873.3	808.5
		Operating Expenses			
59.1	53.0	Salaries and Employee Benefits	**230.0**	213.9	207.9
51.2	77.1	Insurance Benefits	**150.5**	125.7	51.8
23.8	21.1	Provision for Credit Losses	**81.8**	72.0	69.5
77.2	98.0	Other (Note 17)	**287.0**	293.8	273.1
211.3	249.2	Total	**749.3**	705.4	602.3
52.6	34.8	**Income from Continuing Operations, before Income Taxes**	**201.5**	167.9	206.2
21.0	13.4	Provision for Income Taxes (Note 15)	**80.6**	62.9	67.4
31.6	21.4	**Income from Continuing Operations, before Extraordinary Items**	**120.9**	105.0	138.8
–	–	Income from Discontinued Operations, after Income Taxes (Note 6)	**–**	–	2.0
31.6	21.4	**Income before Extraordinary Items**	**120.9**	105.0	140.8
–	–	Extraordinary Items (Note 4)	**–**	–	32.4
31.6	21.4	**Net Income**	**120.9**	105.0	173.2
709.7	657.4	Retained Earnings, Beginning of Period	**665.7**	616.7	502.2
(13.1)	(13.1)	Dividends Paid	**(58.4)**	(56.0)	(58.7)
(1.8)	–	Premium Paid on Redemption of Redeemable Preferred Stock (Note 5)	**(1.8)**	–	–
$726.4	$665.7	**Retained Earnings, End of Period**	**$ 726.4**	$ 665.7	$ 616.7
		Earnings per Common Share			
$ 1.36	$ .84	Continuing Operations	**$ 5.01**	$ 4.19	$ 5.52
–	–	Discontinued Operations	**–**	–	.09
–	–	Extraordinary Items	**–**	–	1.42
$ 1.36	$ .84	**Earnings per Common Share**	**$ 5.01**	$ 4.19	$ 7.03
$ .55	$ .50	**Dividends per Common Share**	**$ 2.20**	$ 2.00	$ 2.00
22.3	22.2	**Average Common Shares Outstanding**	**22.3**	22.2	22.7

See Notes to Financial Statements.

STATEMENT OF CASH FLOWS

(Unaudited) Three Months Ended December 31			Years Ended December 31		
1989	1988	(in millions)	**1989**	1988	1987
		Cash Flows From Operating Activities:			
$ 31.6	$ 21.4	Income from Continuing Operations	**$ 120.9**	$ 105.0	$ 138.8
		Reconciliation of Income from Continuing Operations to Net Cash Provided by Operating Activities:			
23.8	21.1	Provision for Credit Losses	**81.8**	72.0	69.5
(15.3)	(9.7)	Deferred Income Taxes	**(24.9)**	(21.9)	(21.9)
11.1	11.8	Depreciation and Amortization	**45.0**	43.6	39.5
4.1	(1.6)	Insurance Policy and Claim Reserves	**20.1**	(18.4)	15.6
(4.3)	48.1	Accounts Payable and Accrued Liabilities	**39.0**	27.5	39.2
51.0	91.1	Net Cash Provided by Operating Activities	**281.9**	207.8	280.7
		Cash Flows From Investing Activities:			
(1,004.3)	(1,005.1)	Loans Originated or Acquired	**(3,664.5)**	(3,393.5)	(3,260.8)
977.1	757.5	Loans Repaid or Sold	**3,266.6**	2,864.7	2,621.6
(3.4)	4.3	Other Receivables	**(34.9)**	6.4	50.9
(286.3)	(356.3)	Securities Purchased	**(999.9)**	(1,390.5)	(1,823.1)
308.3	376.3	Securities Sold or Matured	**974.6**	1,367.9	1,777.5
6.8	2.6	Investments in and Advances to Discontinued Operations	**7.1**	(78.7)	(50.3)
–	–	Net Proceeds from Sales of Discontinued Operations	**–**	15.7	1,171.1
(12.2)	.8	Property and Equipment Purchased	**(10.8)**	(24.2)	(7.4)
(15.3)	(68.5)	Other	**(31.1)**	(14.4)	(59.0)
(29.3)	(288.4)	Net Cash Provided (Used) in Investing Activities	**(492.9)**	(646.6)	420.5
		Cash Flows From Financing Activities:			
(10.6)	58.0	Short-Term Debt, Net Change	**38.8**	(98.4)	(44.8)
7.0	19.5	Deposits Payable, Net Change	**18.5**	70.1	41.8
179.0	260.0	Long-Term Debt Issued	**815.0**	911.1	74.5
(137.4)	(84.1)	Long-Term Debt Repaid	**(553.7)**	(360.2)	(720.3)
–	–	Repurchase of Company Common Stock	**–**	(.7)	(21.3)
(60.1)	(16.7)	Redemption of Redeemable Preferred Stock	**(60.1)**	(16.7)	(16.7)
(13.1)	(13.1)	Dividends Paid	**(58.4)**	(56.0)	(58.7)
(35.2)	223.6	Net Cash Provided (Used) by Financing Activities	**200.1**	449.2	(745.5)
(13.5)	26.3	**Net Increase (Decrease) in Cash and Equivalents**	**(10.9)**	10.4	(44.3)
91.5	62.6	**Cash and Equivalents at Beginning of Period**	**88.9**	78.5	122.8
$ 78.0	$ 88.9	**Cash and Equivalents at End of Period**	**$ 78.0**	$ 88.9	$ 78.5
		Supplemental Cash Flow Information			
$ 193.3	$ 159.9	Interest Paid	**$ 644.5**	$ 537.7	$ 494.6
19.3	8.6	Income Taxes Paid	**70.0**	44.5	54.2

See Notes to Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Condition

Beneficial's leverage (the ratio of interest-bearing debt to total equity, including redeemable preferred stock in 1988) increased to 7.01 times at the end of 1989 from 6.67 times at the end of 1988. In November 1989, the Company exercised its option to call for redemption all of its 9.25% redeemable preferred stock (see Note 5 on page 37). Removing this issue from equity in 1988 gives a ratio of debt to equity of 7.13 times, slightly higher than the 7.01 this year. The lower leverage, on this basis, reflects the securitization of $248 million of California revolving home equity loans during the fourth quarter this year. The proceeds from the securitization were used to pay down short-term debt.

Total assets grew 5% during the year, with finance receivables accounting for the majority of the growth. Finance receivables increased just over $300 million or 5% despite the aforementioned securitization. Average receivables were up 7% for the year. Strongest growth continued to be in real estate secured loans, up $177 million, and personal unsecured loans, up $91 million. At December 31, 1989, the finance receivable mix was 61% real estate secured, 29% personal unsecured, 8% sales finance contracts, and 2% commercial bank loans, the same percentages as at the end of 1988.

Credit quality of the receivables portfolio continues to be excellent, although delinquency ratios increased year-to-year. Consumer finance loan balances more than two months delinquent on a recency basis were 0.66%, compared to 0.59% at the end of 1988. Net chargeoffs as a percentage of average receivables increased to 1.11% from 1.05% in 1988. At year-end, the allowance for credit losses as a percentage of finance receivables was 3.03%, compared to 3.23% in 1988. The Company's reserve level at year-end 1989 covered the full year's net chargeoffs 2.7 times, a conservative ratio by industry standards.

Results of Operations

Reflecting improvement in margin, growth in insurance earnings, and profits from "Refund Anticipation Loans", 1989 earnings from continuing operations increased 15% over 1988 levels, while comparable earnings per share were up 20%. The earnings per share percentage increase was higher because of reduced preferred dividend requirements this year resulting from the redemption of the Company's 9.25% redeemable preferred stock. 1988 results included a one-time charge related to the decision to switch to another hardware supplier for the Company's Bencom III computer network project. Excluding this charge from 1988 earnings, the percentage increase in 1989 was 7%, rather than the 15% reported. 1987 results included a one-time pretax credit of $54.4 million ($32.6 million aftertax) related to interest income on a favorable settlement of prior years' income taxes. Excluding the one-time items from 1988 and 1987 results, earnings in 1988 increased 6% over 1987.

Continuing the trend of recent years, the lending spread declined as a percentage of average receivables, although the dollar amount increased due to a higher level of receivables. The lending spread decreased to 9.26% from 9.43% in 1988 and 9.71% in 1987, with the decline attributable in large part to higher interest rates on short-term borrowings.

The gross yield increased to 18.57% in 1989 from 18.10% in 1988 and 18.20% in 1987. The increase in yield from 1988 reflects the repricing of variable-rate revolving credit loans during the year. Beneficial's fixed-rate real estate secured loans originated in 1989 were written at an average yield of 16.18%, compared to 16.05% in 1988 and 15.29% in 1987, while variable-rate real estate secured loans were written at a spread over prime of 4.74%, 5.32%, and 5.79% in 1989, 1988, and 1987, respectively. Variable-rate products are generally funded with lower-cost, short-term debt. In 1989 the average yield on unsecured personal loans written was 25.57%, compared to 25.08% and 24.95% in 1988 and 1987, respectively.

Interest expense as a percentage of average receivables increased to 9.31% in 1989 from 8.67% and 8.49% in 1988 and 1987, respectively. Beneficial's total worldwide, melded-average borrowing cost, including bank line and revolving credit commitment fees, was 9.97% in 1989, compared to 9.33% and 9.15% in 1988 and 1987, respectively. In absolute terms, interest expense has increased steadily reflecting higher borrowing levels necessary to support receivables growth, as well as higher interest rates on short-term borrowings.

Insurance premium revenue comparisons are distorted by life and accident and health reinsurance contracts. These transactions had a minimal effect on net income, as reinsurance benefits and commission expenses are distorted by essentially offsetting amounts. Excluding these items, premium revenue was down 6% from 1988 but up 4% from 1987; however, the more profitable credit insurance written through the Beneficial consumer loan office network was up 6% and 15% in 1989 and 1988, respectively. Offsetting these gains were declines in premiums written through the independent marketplace. The outside business is less profitable than the Beneficial-related business because of commissions paid to the producers; therefore, attention has been focused on the more profitable Beneficial-related accounts.

Other revenue increased 24% in 1989 over 1988 principally due to investment income and income from "refund anticipation loans." Over the past three years the Company has conducted a cooperative program with certain income tax preparation enterprises. Under this program, consumers entitled to a tax refund who file their return with the Internal Revenue Service by an electronic filing system can obtain a refund anticipation loan from a Beneficial subsidiary. The subsidiary receives a flat fee for extending the loan. After a pilot program in 1987, the program went into full operation in 1988. Because of problems with screening refund applications, write-offs of loans resulted in a pretax loss of $4.8 million in 1988; however, most of these problems were corrected, and pretax income of $12.0 million was recorded in 1989. This program is reviewed annually and has been implemented for 1990. In the event the program is not renewed in subsequent years, there would be an adverse impact on earnings of the Company.

Harbour Island, Beneficial's real estate subsidiary in Tampa, Florida, continues to be a drain on earnings, with pretax operating losses of $24.7 million, up from the $22.6 million in 1988 and $24.3 million in 1987. Most of the loss represents interest costs, since Beneficial assigns no equity to the project but funds it with debt at the Company's overall melded cost of funds. The increase in the loss from 1988 represents one-time, environmental clean-up costs.

The effective tax rates on income before income taxes were 40.0%, 37.5% and 32.7% in 1989, 1988 and 1987, respectively. The statutory rates were 34% in 1989 and 1988 and 40% in 1987. The effective tax rates were higher than the U.S. statutory rates in 1989 and 1988 because of state income taxes, lower foreign tax credit utilization, and other miscellaneous items. In 1987 the effective tax rate was lower than the statutory rate due to tax benefits received from a tax-sharing agreement with a divested property and casualty insurance subsidiary.

Changes in Cash Flow

The Company's principal sources of cash are collections of finance receivables, proceeds from the issuance of short- and long-term debt, and cash provided from operations. The Company derives a constant source of liquidity and cash flows from maturities and repayments of its receivables. The monthly collections of cash principal as a percentage of average balances were 3.70% in both 1989 and 1988.

Substantial additional liquidity is available through a variety of committed bank credit lines which the Company maintains in support of its commercial paper borrowings. At year-end 1989, total lines of credit were $2,226 million, with $2,191 million in the form of committed multi-year revolving credit facilities. The unused portion of all lines of credit was $1,952 million at December 31, 1989.

In addition, in 1989, two Beneficial subsidiaries sold over $248 million of home equity loan receivables through a securitization in the capital markets. The proceeds were used to pay down short-term debt. While the Company currently has no intentions of securitizing additional receivables in 1990, the securitization in 1989 establishes Beneficial's ability to access this additional funding source and reach a new base of investors.

Long-term debt increased to 63% of the Company's total "Funding Base" from 62% at the end of 1988. Debt issued during the year amounted to $820 million, with an average interest rate of 9.47% and an average maturity of four years. $556 million of long-term debt, with an average rate of 10.06%, either matured or was called for early redemption in 1989.

The Company's principal uses of cash are loans to customers, repayments of maturing debt, and dividends to shareholders.

During the first quarter of 1989, Standard and Poor's Corporation raised the rating on the Company's commercial paper to "A-1" from "A-2", senior debt to "A" from "A-", and preferred stock to "A-" from "BBB+", while Moody's Investors Service, Inc. brought the senior debt rating up two levels to "A3" from "Baa2". These upgrades enhance the Company's ability to borrow at competitive rates.

NOTES TO FINANCIAL STATEMENTS

(in millions, except per share amounts)

1. Summary of Significant Accounting Principles and Practices

a) Basis of Consolidation. The consolidated financial statements include, after intercompany eliminations, the accounts of all subsidiaries except discontinued operations. All adjustments which, in the opinion of management, are necessary for a fair presentation have been reflected. Certain prior period amounts have been reclassified to conform with the 1989 presentation.

b) Finance Operations. The financial statements are prepared on the accrual basis. Finance charges and unearned discount are recognized as income using the interest method or methods which produce similar results. Income accrual is suspended after 30 days on delinquent loans. Accounts known to be uncollectible are charged off.

Real estate secured receivables are reviewed individually by management, and a determination is made as to their collectibility. In general, other receivables are automatically charged off after no payment has been made for six months. For all types of loans, collection efforts are generally continued.

c) Insurance Operations. The Company's insurance subsidiaries are engaged in writing credit life and credit accident and health insurance and single premium annuities. Premiums on credit life insurance are taken into income using the sum-of-the-digits method when the insured amounts decrease with collections, or using the straight-line method over the lives of the policies in the case of level-term contracts. Premiums on credit accident and health insurance are generally taken into income using an average of the sum-of-the-digits and the straight-line methods. Premiums collected on annuity contracts are included as a liability in insurance policy and claim reserves, and annuity income is recognized as the difference between interest earned and interest credited on the contracts. Policy reserves for credit life and credit accident and health insurance are equal to related unearned premiums. Credit accident and health reserves are adjusted to reflect claim experience.

d) Valuation of Investments. Debt securities are carried at amortized cost; equity securities are generally carried at market value; other investments are carried at cost. The adjustment of the carrying amount of marketable equity securities from cost to market value is recorded directly in shareholders' equity through a valuation allowance.

e) Translation of Foreign Currencies. Assets and liabilities in foreign currencies are translated at the market rates at each balance sheet date. Foreign operating results are translated at the average market rates for each period covered by the statement of income.

f) Amortization of Excess Cost of Net Assets Acquired. Excess cost applicable to acquisitions is generally being amortized over 40 years.

g) Earnings per Common Share. Earnings per common share are computed by deducting dividend requirements on preferred stocks from net income and dividing the remainder by average shares outstanding and their equivalents. None of the preferred stocks are common stock equivalents.

h) Cash Equivalents. The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

2. Change in Accounting Principle

In January 1988, the Financial Accounting Standards Board (FASB) issued a statement (SFAS No. 96) on Accounting for Income Taxes. Implementation of this statement was originally scheduled for fiscal years beginning after December 15, 1988; however, the FASB subsequently deferred implementation until fiscal years beginning after December 15, 1991. The Company is currently planning to adopt the new accounting standard in 1992.

As the statement presently stands, it establishes more restrictive criteria for recognition of deferred tax assets. The most significant impact of the statement on the Company's financial statements is expected to be the provisions relating to changes in the statutory rates. Because the Company has recorded deferred tax benefits when statutory income tax rates were higher than they are currently, the Company will be required to reverse a portion of the deferred tax benefits it had previously recorded.

3. Interest Income from Tax Settlement

During the second quarter of 1987, the Federal Circuit Court of Appeals reversed a prior ruling by a lower court and endorsed the formula used by the Company to determine its reserve for uncollectible accounts on tax returns filed for 1976 and 1977. As a result of this favorable judgment, the Internal Revenue Service paid the Company $83.0 representing a refund for overpayment of taxes in those years and interest to the date of repayment. The interest portion ($54.4) was included in income for the year ended December 31, 1987. The tax refund portion ($28.6) related only to the timing of tax payments and did not affect recorded tax expense.

4. Extraordinary Items

In 1987 the Company's financial statements reflect the use of $105.0 of net operating loss carryforwards, resulting in an extraordinary tax credit of $41.4. Also, in 1987, the Company used a portion of the cash proceeds from the sales of its discontinued subsidiaries to retire long-term debt prior to scheduled maturities. A total of $240.7 of long-term debt was extinguished at a premium of $9.0 (after an income tax benefit of $6.0). The net aftertax effect of the above two items is classified as an extraordinary gain in the income statement.

5. Redeemable Preferred Stock

In November 1989, the Company exercised its option to call for redemption all of its 9.25% Series Redeemable Preferred stock issue. The Company was required to redeem 8,333 shares through a sinking fund at $1,000 per share and, at its option, could increase the sinking fund payment by an additional 8,333 shares. The Company had the right to purchase the remaining 41,670 shares beginning November 15, 1989, at an initial redemption price of $1,043.82, declining ratably thereafter to $1,000 per share. The Company chose to exercise this option. The premium paid on redemption of the shares is reflected as a reduction to retained earnings.

6. Discontinued Operations

In 1987 the Company sold substantially all of its leveraged leasing portfolio. Accordingly, the Company's leasing subsidiary has been included in discontinued operations, and its net income from operations of $2.0 (after a tax benefit of $.2) through June 30, 1987 is included in Income from Discontinued Operations in the statement of income. Revenues for the same period totaled $4.0.

During 1987 the Company also completed the sales of several subsidiaries which were disposed of in accordance with a plan for a comprehensive restructuring of the Company adopted in 1986. On a combined basis, considering both the 1986 and 1987 disposals, there was no gain or loss on disposal reflected in 1987.

The investments in and advances to discontinued operations are included in the Other Assets caption on the balance sheet at estimated net realizable value.

7. Investments

Investments, principally long-term investments of the Company's credit life insurance subsidiary, consist of the following:

December 31	1989		1988	
	Carrying Amount	Market Value	Carrying Amount	Market Value
Debt Securities				
Municipal	**$162.4**	**$159.8**	$212.8	$202.1
Corporate	**155.9**	**156.7**	76.8	74.2
U.S. Government	**28.0**	**28.1**	21.4	20.8
Commercial Paper	**7.1**	**7.1**	16.5	16.5
Other	**12.0**	**12.1**	13.7	13.6
Equity Securities				
Preferred	**17.1**	**17.1**	16.0	16.0
Common	**.9**	**.9**	1.4	1.4
Other	**5.7**	**5.7**	3.8	3.8
Total	**$389.1**	**$387.5**	$362.4	$348.4

At December 31, 1989, the portfolio of equity securities, having a cost of $19.8, reflects unrealized gains of $.1 and unrealized losses of $1.9. The cost of investments sold is determined on the specific cost identification basis.

8. Finance Receivables and Allowance for Credit Losses

Finance receivables, net of unearned finance charges of $334.8 and $320.8 at December 31, 1989 and 1988, respectively, and maximum term in months from origination are as follows:

	Amount		Maximum Term	
December 31	**1989**	1988	**1989**	1988
Real Estate Secured Loans	**$4,233.4**	$4,055.8	**180**	180
Personal Unsecured Loans	**1,979.2**	1,888.6	**120**	120
Sales Finance Contracts	**524.4**	509.0	**60**	60
Commercial Bank Loans	**164.7**	144.7	**360**	360
Total	**$6,901.7**	$6,598.1		

Scheduled contractual payments of finance receivables to be received after December 31, 1989 are as follows:

	1990	1991	1992	1993	Beyond
Real Estate Secured Loans	19%	13%	12%	13%	43%
Personal Unsecured Loans	46	29	15	4	6
Sales Finance Contracts	80	14	4	1	1
Commercial Bank Loans	31	17	13	13	26
Overall	32	18	12	9	29

The above tabulation of scheduled contractual payments is not a forecast of collections. Collections of principal of finance receivables amounted to $2,993.5 for 1989 and $2,727.2 for 1988. The percentage of monthly cash principal collections to average balances was 3.70% for 1989 and 1988.

An analysis of the allowance for credit losses follows:

	1989	1988	1987
Balance at Beginning of Year	**$212.8**	$210.6	$195.6
Loans Charged Off	**(92.9)**	(84.1)	(80.1)
Recoveries on Loans Previously Charged Off	**14.9**	15.5	15.2
Provision Charged to Operating Expense	**81.8**	72.0	69.5
Other	**(7.8)**	(1.2)	10.4
Balance at End of Year	**$208.8**	$212.8	$210.6

9. Other Assets

December 31	**1989**	1988
Accrued Investment Income	**$ 23.3**	$ 24.7
Deferred Income Tax Benefits	**163.0**	143.8
Deferred Premium on Sale of Mortgages	**22.1**	16.8
Excess Cost of Net Assets Acquired	**23.5**	24.0
Insurance Premiums Receivable	**22.7**	17.4
Investments in and Advances to Discontinued Operations	**26.8**	33.9
Miscellaneous Accounts and Notes Receivable	**63.0**	61.6
Mortgage Loans Held for Resale	**46.1**	17.2
Unamortized Insurance Policy Acquisition Costs	**43.4**	43.0
Unamortized Software Costs	**24.5**	18.1
Other	**103.6**	88.8
Total	**$562.0**	$489.3

10. Short-Term Debt

Short-term debt outstanding, of which 88.7% and 85.8% of the total at December 31, 1989 and 1988, respectively, is payable in U.S. currency, consists of the following:

December 31	1989	1988
Bank Borrowings	$ 230.6	$ 254.6
Commercial Paper	1,754.4	1,705.2
Total	$1,985.0	$1,959.8

At December 31, 1989, the Company maintained committed revolving credit facilities totaling 112% of its outstanding domestic commercial paper. The unused portion of bank lines of credit at December 31, 1989 is $1,951.6. Generally, domestic lines of credit provide for a fee of ⅛% per annum on the lines.

Average interest rates (including the costs of maintaining lines of credit) on borrowings outstanding at year-end are as follows:

	1989	1988	1987
Bank Borrowings	12.92%	12.16%	8.23%
Commercial Paper	9.01	9.78	8.39

The weighted-average annual interest rates (including the costs of maintaining lines of credit) and additional data for short-term debt are as follows:

	1989	1988	1987
Maximum Amount at Any Month End	$2,356.7	$2,376.0	$2,288.8
Daily Average Amount	2,054.3	2,036.1	1,989.9
Average Interest Rates on Borrowings During the Year			
U.S. Dollar	9.56%	7.98%	7.27%
Other Currencies	12.92	9.17	8.20
Overall	9.96	8.12	7.38

11. Long-Term Debt

Long-term debt outstanding is as follows:

December 31	1989	1988
Currency		
United States	$3,770.6	$3,433.4
Canadian	191.7	196.7
West German	51.7	116.4
Unamortized Discount	(3.2)	(21.2)
Total	$4,010.8	$3,725.3

Long-term debt, including weighted-average interest rates by year of maturity on debt outstanding at December 31, 1989, is shown below in the earliest year it could become payable:

Maturity	Average Interest Rates	1989	1988
1989		$ –	$ 522.8
1990	10.01%	723.1	552.3
1991	10.06	646.8	501.8
1992	9.54	468.2	360.8
1993	9.24	553.7	477.2
1994	11.19	475.6	343.4
1995–1999	9.25	693.3	534.9
2000–2004	7.87	279.2	324.2
2005–2009	8.44	90.6	45.6
2010–2013	12.83	83.5	83.5
Unamortized Discount		(3.2)	(21.2)
Total		$4,010.8	$3,725.3
Weighted-Average Annual Interest Rate on Debt Outstanding at End of Year		9.74%	9.80%

The weighted-average interest rates on the Company's long-term debt during the years ended December 31 were as follows:

	1989	1988
U.S. Dollar Borrowings	9.85%	9.91%
Other Currency Borrowings	9.23	9.21
Overall	9.81	9.85

12. Capital Stock

The number of shares of capital stock outstanding is as follows:

	December 31 1989	1988
Preferred—no par value (issuable in series). Authorized, 500,000 9.25% Series Redeemable Preferred—$1,000 stated value.	–	58,336
Series A Participating Preferred —$1 par value. Authorized, 250,000	–	–
Preferred—$1 par value. Authorized, 2,500,000	–	–
5% Cumulative Preferred—$50 par value. Authorized, 585,730	**407,718(a**	407,718(a
$5.50 Dividend Cumulative Convertible Preferred—no par value—$20 stated value (each share convertible into 4.5 shares of Common; maximum liquidation value, $3,476,800 and $3,781,500). Authorized, 1,164,077	**34,768**	37,815
$4.50 Dividend Cumulative Preferred—$100 par value. Authorized, 103,976	**103,976**	103,976
$4.30 Dividend Cumulative Preferred—no par value—$100 stated value. Authorized, 1,069,204	**836,585**	836,585
Common—$1 par value. Authorized, 60,000,000	**22,404,494(b**	22,390,785(b
After deducting treasury shares		
a) 5% Cumulative Preferred	**178,012**	178,012
b) Common	**4,822,066**	4,822,066

At December 31, 1989, a total of 194,620 shares of Common Stock was reserved for conversion of $5.50 Preferred and 10.5% Convertible Instalment Notes. During the year, 13,709 shares of Common Stock were issued upon conversion of the $5.50 Preferred Stock.

Additional capital was increased by $0.6 during 1989. The entire change relates to the issuance of treasury shares for corporate purposes.

13. Preferred Stock Purchase Rights

In November 1987, the Company declared a dividend distribution of one Preferred Stock Purchase Right for each outstanding share of Common Stock of the Company payable as of November 23, 1987 to stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of the Company's Series A Participating Preferred Stock at a price of $175, subject to adjustment under certain circumstances.

Rights are issued with all shares of the Company's Common Stock issued between November 23, 1987 and the earliest of the date the Rights become exercisable, expire or are redeemed. Until the Rights become exercisable, they will automatically trade with the Common Stock. If the rights become exercisable, separate certificates will be distributed and the Rights will begin to trade independently from the Company's Common Stock, but will at no time have voting power.

The Rights will be exercisable ten days after public announcement that a person has acquired 20 percent or more of the Company's outstanding Common Stock or has made a tender offer for 30 percent or more of the Company's outstanding Common Stock.

If, at any time after the Rights become exercisable, but before they expire or are redeemed, the Company is acquired in a merger or other business combination or sells 50% or more of its assets or earning power, the holder of a Right will be entitled to buy, at the exercise price, a number of shares of Common Stock of the acquiring or surviving company having a market value of twice the exercise price of each Right.

In addition, if a 20% or greater shareholder acquires the Company by means of a reverse merger in which the Company and its stock survive or engages in certain self-dealing transactions with the Company, or if a person acquires shares of the Company's stock having 35% or more of the general voting power, each Right not owned by the 20% or greater holder would become exercisable for a number of shares of Participating Preferred Stock of the Company having a market value of two times the exercise price of the Right. The Rights held by the 20% or greater holder would be denied the benefit of this adjustment.

The Rights may be redeemed by the Company for $.05 per Right at any time prior to the expiration of the Rights on November 23, 1997.

14. Employee Retirement Plans

The Company has a non-contributory defined benefit pension plan covering substantially all of its employees in the United States. The benefits provided are based on the employee's age, years of service, and average compensation during the highest three consecutive years of earnings. The Company has made annual contributions at least equal to the amounts accrued for retirement expense. Plan assets are invested primarily in corporate bonds and short-term investments.

Net pension expense for domestic operations was $5.0, $4.5, and $4.3 for 1989, 1988 and 1987, respectively. Pension expense for the Company's subsidiaries outside the United States was $1.0, $1.1, and $.8 for the same periods. In addition, the Company funds a 401(k) savings plan under which basic contributions are made annually up to 2.5% of each eligible employee's annual compensation up to $0.2. Costs charged to income for the years ended December 31, 1989, 1988 and 1987 were $2.5, $2.2 and $1.9, respectively.

SFAS 87 requires disclosures of the components of net periodic pension cost and of the projected benefit obligation. The projected benefit obligation is the actuarial present value of the portion of projected future benefits attributable to employee service to date, and the plan cost is that portion attributable to employee service during the year. This cost method recognizes the effect of future compensation levels in projecting the future benefits.

The domestic plan's funded status and amounts recognized in the Company's balance sheet are as follows:

December 31	1989	1988
Actuarial Present Value of Vested Benefit Obligation	**$14.0**	$11.7
Accumulated Benefit Obligation	**$25.2**	$21.1
Projected Benefit Obligation for Service Rendered to Date	**$57.1**	$51.0
Less Plan Assets at Fair Value	**28.4**	19.1
Projected Benefit Obligation in Excess of Plan Assets	**28.7**	31.9
Less Unrecognized Net Gain	**4.1**	5.4
Accrued Pension Cost Included in Other Liabilities	**$24.6**	$26.5

In both years the weighted-average discount rate and the rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 8.5% and 5.5%, respectively. The estimated long-term rate of return on assets was 9% in both years.

The following table details the components of net pension expense for domestic operations:

December 31	1989	1988	1987
Service Cost—Benefits Earned During Period	**$ 2.6**	$ 2.3	$ 2.0
Interest Cost on Projected Benefit Obligation	**4.2**	3.7	3.4
Actual Return on Plan Assets	**(1.8)**	(1.5)	(1.1)
Net Periodic Pension Cost	**$ 5.0**	$ 4.5	$ 4.3

15. Income Taxes

The Company files a consolidated U.S. federal income tax return with all eligible subsidiaries, including eligible discontinued operations. Income taxes, whether payable currently or in the future, are provided on reported earnings.

The provision for income taxes for continuing operations is comprised of the following:

December 31	1989	1988	1987
Current			
U.S.	**$ 77.6**	$ 58.9	$ 62.1
Foreign	**18.7**	17.9	17.7
Total	**96.3**	76.8	79.8
Deferred			
U.S.	**(23.3)**	(20.7)	(16.8)
Foreign	**(1.6)**	(1.2)	(5.1)
Total	**(24.9)**	(21.9)	(21.9)
State and Local	**9.2**	8.0	9.5
Total Provision for Income Taxes	**$ 80.6**	$ 62.9	$ 67.4

Deferred income taxes result from timing differences in the recognition of income and expense for tax and financial statement purposes. The tax effects of the principal timing differences are as follows:

December 31	1989	1988	1987
Differences Between Cash and Accrual Basis	**$ (6.6)**	$ (1.4)	$ (5.4)
Insurance Benefits Provided	**1.1**	1.5	(2.4)
Tax Depreciation in Excess of Book Depreciation	**2.1**	2.5	3.5
Reserve for Credit Losses	**(17.7)**	(18.7)	(19.9)
Deferred Retirement Plan Credits	**.7**	.7	.9
Restructuring Costs	**–**	–	2.0
Insurance Policy Acquisition Costs	**(1.3)**	(2.0)	4.2
Data Processing Upgrade	**–**	(4.1)	–
Other	**(3.2)**	(.4)	(4.8)
Total Provision (Benefit) for Deferred Income Taxes	**$(24.9)**	$(21.9)	$(21.9)

A reconciliation of the provision for income taxes at the statutory U.S. income tax rate to the tax provision as reported follows:

December 31	1989	1988	1987
Statutory U.S. Tax Rate	**34.0%**	34.0%	40.0%
Increase (Decrease):			
Differential due to Operations outside U.S.	**2.9**	2.5	.9
Non-Taxable Investment Income	**(2.2)**	(2.2)	(1.6)
State and Local Income Taxes	**2.8**	2.9	2.6
Tax Sharing Agreement with Divested Insurance Subsidiary	**–**	–	(9.5)
Other	**2.5**	.3	.3
Effective Tax Rate	**40.0%**	37.5%	32.7%

The Company entered into an agreement with American Centennial Insurance Company (ACIC) whereby the Company partially compensated ACIC for tax losses generated by ACIC in 1987 which could be utilized on the Company's consolidated tax return. ACIC was a discontinued subsidiary at the time the losses were incurred. The tax savings generated by such losses exceeded the amounts paid to ACIC.

U.S. income taxes have not been provided at December 31, 1989 on $30.1 of undistributed earnings of foreign subsidiaries, which are expected to be permanently invested in foreign countries, and on $77.8 of undistributed earnings of life insurance subsidiaries accumulated as policyholder's surplus under tax laws in effect prior to 1984.

16. Accounts Payable and Accrued Liabilities

December 31	1989	1988
Accounts Payable	**$ 96.1**	$ 86.3
Accrued and Deferred Compensation	**44.8**	36.4
Accrued Interest	**89.4**	106.7
Accrued Pension Cost	**24.6**	26.5
Dealer Reserves	**12.3**	11.8
Income Taxes Payable	**60.1**	35.3
Insurance Premiums Payable	**20.2**	22.8
Other	**107.5**	90.2
Total	**$455.0**	$416.0

17. Other Expenses

December 31	1989	1988	1987
Occupancy	**$ 60.3**	$ 59.7	$ 57.4
Commissions	**30.7**	39.8	29.1
Depreciation	**22.0**	23.8	21.6
Marketing	**23.3**	21.2	16.8
Postage	**10.0**	9.5	8.4
Printing	**12.7**	11.2	11.4
Provision Related to Data Processing Upgrade	**–**	12.0	–
Telephone	**18.5**	17.6	17.1
Travel	**12.5**	11.3	10.5
Other	**97.0**	87.7	100.8
Total	**$287.0**	$293.8	$273.1

18. Geographic Information

Operations of the Company are conducted through subsidiaries located primarily in the United States. Operations outside the U.S. are conducted through subsidiaries in Canada, the United Kingdom and West Germany. The Company's exposures in foreign currencies are hedged to the extent practical.

Data by geographic area for the years ended December 31 is shown in the following tabulation:

	United States	Other	Inter-Company Eliminations	Total
1989				
Revenue	**$1,396.3**	**$191.4**	**$ (9.4)**	**$1,578.3**
Income before Income Taxes	**177.5**	**24.0**	**–**	**201.5**
Assets	**7,053.9**	**964.9**	**(71.3)**	**7,947.5**
1988				
Revenue	1,245.6	180.0	(7.6)	1,418.0
Income before Income Taxes	140.3	27.6	–	167.9
Assets	6,642.3	955.7	(35.4)	7,562.6
1987				
Revenue	1,150.9	151.7	(9.6)	1,293.0
Income before Income Taxes	190.5	15.7	–	206.2

19. Leases

The Company's consumer finance system operates from premises under leases generally having an original term of five years with a renewal option for a like term. The Company leases its headquarters in Wilmington, Delaware, under a lease expiring in 1993. Also, a subsidiary leases an office complex with a primary term expiring in 2010 and renewal options totaling forty-seven years. Data processing equipment lease terms range from one to four years and are generally renewable. The minimum rental commitments under noncancelable operating leases at December 31, 1989 are as follows:

1990	$ 42.8
1991	39.3
1992	36.1
1993	32.4
1994	28.1
1995–1999	135.7
2000–2013	290.4
Total	$604.8

20. Contingent Liabilities

The Company and two of its present officers and directors are defendants in one lawsuit seeking unspecified money damages relating to the restructuring of the Company and the operations of an insurance subsidiary prior to its disposition. The Company is of the opinion that such lawsuit is without merit.

21. Selected Financial Data

Selected unaudited financial data required by the Securities and Exchange Commission are included in the Five-Year Summary, page 46, and in the Quarterly Financial Data, page 47.

MANAGEMENT'S REPORT

Management is responsible for the preparation of the financial statements and related notes contained in this Annual Report and believes that such financial data presents fairly the Company's results of operations and financial position. These statements necessarily include amounts based on the best estimates and judgements of management, all in conformity with generally accepted accounting principles.

The Company maintains a system of internal control which provides reasonable assurance that assets are safeguarded and transactions are executed and recorded in accordance with management's authorization. An integral part of the Company's internal control system is an active internal audit staff.

The Company's independent auditors, Deloitte & Touche, perform annual audits in accordance with generally accepted auditing standards. Their examinations include a review of the internal control system to establish a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the examination of financial statements.

The Audit Committee of the Board of Directors is comprised entirely of outside directors. It meets regularly with management and the internal and independent auditors to review the activities of each and satisfy itself that responsibilities are properly discharged. Unrestricted access to the Audit Committee is provided to Deloitte & Touche and the internal audit staff, allowing open discussion without management's presence on the quality of financial reporting and the adequacy of internal accounting controls.

Management recognizes its responsibility to provide reliable financial information and believes its system of internal controls enables it to meet that responsibility.

Finn M. W. Caspersen *Chairman of the Board of Directors and Chief Executive Officer*	**Andrew C. Halvorsen** *Member of the Office of the President and Chief Financial Officer*	**Thomas P. McGough** *Senior Vice President and Controller*

INDEPENDENT AUDITORS' REPORT

Deloitte & Touche

To the Stockholders and Board of Directors of Beneficial Corporation:

We have audited the accompanying consolidated balance sheets of Beneficial Corporation and Subsidiaries as of December 31, 1989 and 1988, and the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Beneficial Corporation and Subsidiaries at December 31, 1989 and 1988, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1989 in conformity with generally accepted accounting principles.

Deloitte & Touche

Morristown, New Jersey
February 5, 1990

FIVE-YEAR SUMMARY

(in millions, except where noted)

During The Year	1989	1988	1987	1986	1985
Net Income (Loss)					
Income from Continuing Operations (a)	**$ 120.9**	105.0	138.8	74.6	69.0
Income (Loss) from Discontinued Operations	$ –	–	2.0	(268.2)	28.7
Extraordinary Items	$ –	–	32.4	–	–
Cumulative Effect of Accounting Change	$ –	–	–	19.4	–
Net Income (Loss)	**$ 120.9**	105.0	173.2	(174.2)	97.7
Earnings (Loss) per Common Share (dollars)					
Continuing Operations (a)	**$ 5.01**	4.19	5.52	2.66	2.37
Discontinued Operations	$ –	–	.09	(11.93)	1.30
Extraordinary Items	$ –	–	1.42	–	–
Cumulative Effect of Accounting Change	$ –	–	–	.86	–
Earnings (Loss) Per Common Share	**$ 5.01**	4.19	7.03	(8.41)	3.67
Average Number of Common Shares	**22.3**	22.2	22.7	22.5	22.1
Dividends Paid per Common Share (dollars)	**$ 2.20**	2.00	2.00	2.00	2.00
Book Value per Common Share (dollars)	**$ 35.58**	32.87	30.72	25.88	36.26
Revenue	**$1,578.3**	1,418.0	1,293.0	1,172.4	1,127.3
Interest	**$ 627.5**	544.7	484.5	455.2	440.2
Lending Spread	**$ 623.4**	592.6	554.3	525.5	469.6
Lending Spread as a % of Cash Invested	**9.26**	9.43	9.71	10.17	10.24
Provision for Credit Losses	**$ 81.8**	72.0	69.5	64.8	53.5
Total Expenses	**$1,376.8**	1,250.1	1,086.8	1,043.4	1,009.8
Income before Income Taxes	**$ 201.5**	167.9	206.2	129.0	117.5
% of Monthly Cash Principal Collections to Average Monthly Balances	**3.70**	3.70	3.68	4.22	3.86
% of Finance Receivables Charged Off (less recoveries) to Average Monthly Balances	**1.11**	1.05	1.08	1.07	.77
At Year-End					
Finance Receivables	**$6,901.7**	6,598.1	6,134.8	5,461.1	4,894.1
Allowance for Credit Losses	**$ 208.8**	212.8	210.6	195.6	190.3
Total Assets	**$7,947.5**	7,562.6	7,060.3	7,446.2	7,124.8
Short-Term Debt	**$1,985.0**	1,959.8	2,058.2	2,103.0	1,245.3
Long-Term Debt	**$4,010.8**	3,725.3	3,152.8	3,742.4	3,971.9
Redeemable Preferred Stock	$ –	58.3	75.0	91.7	108.3
Shareholders' Equity (excluding redeemable preferred stock)	**$ 911.1**	850.0	801.1	708.6	928.5
% of Allowance for Credit Losses to Finance Receivables	**3.03**	3.23	3.43	3.58	3.89
% of Finance Receivables with Payments more than Two Months Delinquent—Consumer Loans only (based upon recency of payment)	**.66**	.59	.61	.74	.70
Number of Accounts	**1.9**	1.9	1.7	1.7	1.6
Holders of Common Shares (whole numbers)	**16,800**	17,900	18,500	19,200	23,700
Employees (whole numbers)	**7,200**	6,800	6,600	6,800	6,700
Offices (whole numbers)	**1,071**	1,073	1,074	1,106	1,114

(a) Includes the following Special Items, after income taxes: "Provision for Data Processing Upgrade" of $7.9 ($.35 per share) in 1988; "Interest Income from Tax Settlement" of $32.6 ($1.44 per share) in 1987; and "Provision for Restructuring" of $5.5 ($.24 per share) in 1986.

QUARTERLY FINANCIAL DATA

(unaudited)

(in millions, except per share amounts)

Quarter Ended	March 31	June 30	September 30	December 31	Total
1989					
Revenue	$358.7	$397.4	$404.3	$417.9	$1,578.3
Income before Income Taxes	46.2	50.9	51.8	52.6	201.5
Net Income	27.7	30.6	31.0	31.6	120.9
Earnings per Common Share	1.13	1.25	1.27	1.36	5.01
Dividends per Common Share	.55	.55	.55	.55	2.20
Market Price of Common Stock:					
High	46⅞	55⅛	56⅝	54½	
Low	42⅝	42¼	49¾	46	
1988					
Revenue	$325.8	$331.4	$331.6	$429.2	$1,418.0
Income before Income Taxes	42.7	43.4	47.0	34.8	167.9
Net Income	27.0	27.4	29.2	21.4	105.0
Earnings per Common Share	1.08	1.10	1.17	.84	4.19
Dividends per Common Share	.50	.50	.50	.50	2.00
Market Price of Common Stock:					
High	47¼	48⅜	53¾	51⅛	
Low	34¼	41⅝	43¼	43⅛	

OFFICERS

Beneficial Corporation

Finn M. W. Caspersen
Chairman of the Board of Directors and Chief Executive Officer

David J. Farris
Member of the Office of the President and Chief Operating Officer

Andrew C. Halvorsen
Member of the Office of the President and Chief Financial Officer

James H. Gilliam, Jr.
Executive Vice President, General Counsel and Secretary

William H. H. Ely, Jr.
Senior Vice President and Treasurer

Thomas P. McGough
Senior Vice President and Controller

Maryann W. Schneider
Senior Vice President – Planning and Administration

Beneficial Management Corporation

David J. Farris
President and Chief Executive Officer

Senior Vice Presidents

Theodore L. Boyer
Data Processing

Robert M. Grohol
Operating

Charles E. Hance
General Counsel

Manfred E. Niebisch
Operating

Group Presidents

Rodney K. Adams
Canadian Group

Pierre E. Bashe
Northwest Group

John France
United Kingdom Group

James L. Frans
Midwest Group

Peter J. Gimino, Jr.
Southwest Group

J. C. Heywood
North Central Group

Wayne B. Hinson
Southern Group

Kendall D. Kelley
Mid-Atlantic Group

Forrest B. Kinney
Gulf Coast Group

Francis X. Mohan
Northeast Group

Other Subsidiaries

Bencharge Credit Service of America, Inc.

Ross N. Longfield
President

Beneficial Mortgage Corporation

Raymond J. Hill
President and Chief Executive Officer

Beneficial National Bank

James W. Wright
President and Chief Executive Officer

Beneficial Savings Bank, FSB

Kenneth A. Reyes
President and Chief Executive Officer

The Central National Life Insurance Company

Daniel R. O'Brien
President and Chief Executive Officer

Tax Masters, Inc.

Ross N. Longfield
President

Design: Roessner & McMillin Photography: William Taufic

DIRECTORS

Charles W. Bower (3,4)
Retired; former Senior Vice President and Treasurer of Beneficial Corporation

Robert C. Cannada (3,5)
Attorney at Law, Butler, Snow, O'Mara, Stevens & Cannada, Jackson, Mississippi

Finn M. W. Caspersen (1,2)
Chairman of the Board of Directors and Chief Executive Officer

Leonard S. Coleman, Jr. (5,6)
Vice President, Kidder, Peabody and Co. New York, New York

David J. Farris (1,2)
Member of the Office of the President and Chief Operating Officer

James H. Gilliam, Jr. (1)
Executive Vice President, General Counsel and Secretary

Andrew C. Halvorsen (1,2)
Member of the Office of the President and Chief Financial Officer

J. Robert Hillier (4,6)
Architect and businessman, The Hillier Group, Inc., Princeton, New Jersey

Gerald L. Holm (4,5)
Consultant to the Company; former Vice Chairman of Beneficial Corporation

Thomas H. Kean
President, Drew University Madison, New Jersey; Former Governor of New Jersey

Jan Leschly
Business Consultant; Former President and Chief Operating Officer, Squibb Corporation

Steven Muller (5,6)
President, Johns Hopkins University, Baltimore, Maryland

Susan Julia Ross (3,6)
Attorney at Law, Natelson and Ross, Taos, New Mexico

Robert A. Tucker (3)
Retired; former Member of the Office of the President and Chief Financial Officer of Beneficial Corporation

E. Norman Veasey (3,5)
Attorney at Law, Richards, Layton & Finger, Wilmington, Delaware

Susan M. Wachter (3,6)
Associate Professor of Finance, The Wharton School, University of Pennsylvania, Philadelphia, Pennsylvania

Charles H. Watts, II (3,5)
Educational and business consultant, McLean, Virginia

K. Martin Worthy (4,5)
Attorney at Law, Hopkins & Sutter, Washington, D.C.

Directors Emeriti

Cecil M. Benadom

Elbert N. Carvel

Freda R. Caspersen

George R. Evans

J. Thomas Gurney

Modie J. Spiegel

Arthur T. Ward

(1) Member of Executive Committee (Finn M. W. Caspersen, Chairman)
(2) Member of Finance Committee (Andrew C. Halvorsen, Chairman)
(3) Member of Audit Committee (Charles H. Watts, II, Chairman)
(4) Member of Compensation Committee (K. Martin Worthy, Chairman)
(5) Member of Corporate Policy Committee (E. Norman Veasey, Chairman)
(6) Member of Nominating Committee (J. Robert Hillier, Chairman)

CORPORATE INFORMATION

Beneficial Corporation is a direct issuer of commercial paper to institutional and other corporate investors. Notes are sold in amounts of $100,000 or more, for maturities of 5 to 270 days at competitive market rates. Daily rates are posted nationally on the TELERATE SYSTEM next to the symbol "BNL." For further information call (201) 781-3614.

Media representatives and others seeking general information about the Company should contact Miss Jane M. Kenny at (201) 781-3882.

Security analysts, portfolio managers, and other investors seeking financial information about the Company should contact Mr. William H. H. Ely at (201) 781-3609 or Mr. John R. Engelhardt at (201) 781-3613.

First Chicago Trust Company of New York is both registrar and transfer agent for all classes of Beneficial Corporation common and preferred stock. Address changes, security transfer matters, and the Dividend Reinvestment Service can be handled by phone. The number of First Chicago's telephone response center is (212) 791-6422. Their mailing address is 30 West Broadway, New York, NY 10007.

Copies of the Company's 10-K report to the SEC are available upon request from Mr. James H. Gilliam, Jr., Beneficial Corporation, P.O. Box 911, Wilmington, Delaware 19899.

The Annual Meeting of the shareholders of Beneficial Corporation will be held on Wednesday, May 23, 1990 at 11:00 a.m. in the Company's headquarters, 400 Bellevue Parkway, Wilmington, Delaware.

Beneficial

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